



## THE UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of: )  
 )  
 ) Investigation No.:  
 NON-MALLEABLE CAST IRON ) 731-TA-990 (Final)  
 PIPE FITTINGS FROM CHINA )

Tuesday,  
 February 11, 2003

Room No. 101  
 U.S. International  
 Trade Commission  
 500 E Street, S.W.  
 Washington, D.C.

The hearing commenced, pursuant to notice, at 9:35 a.m., before the Commissioners of the United States International Trade Commission, the Honorable DEANNA TANNER OKUN, Chairman, presiding.

## APPEARANCES:

On behalf of the International Trade Commission:Commissioners:

DEANNA TANNER OKUN, CHAIRMAN  
 JENNIFER A. HILLMAN, VICE CHAIRMAN  
 MARCIA E. MILLER, COMMISSIONER  
 STEPHEN KOPLAN, COMMISSIONER

Staff:

MARILYN R. ABBOTT, SECRETARY TO THE COMMISSION  
 WILLIAM R. BISHOP, STAFF ASSISTANT TO THE  
 SECRETARY  
 BONNIE NOREEN, SUPERVISORY INVESTIGATOR  
 VALERIE NEWKIRK, INVESTIGATOR  
 CHARLES ST. CHARLES, ATTORNEY  
 NORMAN VAN TOAI, INDUSTRY ANALYST  
 AMELIA PREECE, ECONOMIST  
 JOHN FRY, ACCOUNTANT

Heritage Reporting Corporation  
 (202) 628-4888

APPEARANCES: (cont'd.)

Congressional Appearances:

THE HONORABLE JOSEPH R. PITTS, U.S. Congressman,  
16th District, State of Pennsylvania  
THE HONORABLE JOHN E. PETERSON, U.S. Congressman,  
5th District, State of Pennsylvania

In Support of the Imposition of Antidumping Duties:

On behalf of Anvil International, Inc. and Ward  
Manufacturing, Inc.:

THOMAS E. FISH, President, Anvil International,  
Inc.  
BOB KIM, Vice President, Manufacturing, Anvil  
International, Inc.  
JOHN E. MARTIN, Vice President, National Accounts,  
Anvil International, Inc.  
WILLIAM E. STROUSS, Vice President, Finance, Anvil  
International, Inc.  
TOM GLEASON, Vice President, Marketing and Sales,  
Ward Manufacturing, Inc.  
KEVIN BARRON, Operations Manager, Ward  
Manufacturing, Inc.  
ROBERT BLAIR, President & CEO, Tioga County  
Development Corporation  
ROBERT CLARK, President, Clark Sprinkler Supply  
FRANK FINKEL, President, Davis Warshow  
  
ROGER B. SCHAGRIN, Esquire  
Schagrin Associates  
Washington, D.C.

I N D E X

|  | PAGE |
|--|------|
| THE HONORABLE JOSEPH R. PITTS, U.S. CONGRESSMAN,<br>16TH DISTRICT, STATE OF PENNSYLVANIA     | 5    |
| THE HONORABLE JOHN E. PETERSON, U.S. CONGRESSMAN,<br>5TH DISTRICT, STATE OF PENNSYLVANIA     | 9    |
| OPENING STATEMENT OF ROGER B. SCHAGRIN, ESQUIRE,<br>SCHAGRIN ASSOCIATES                      | 15   |
| TESTIMONY OF ROGER B. SCHAGRIN, ESQUIRE,<br>SCHAGRIN ASSOCIATES                              | 19   |
| TESTIMONY OF THOMAS E. FISH, PRESIDENT,<br>ANVIL INTERNATIONAL, INC.                         | 20   |
| TESTIMONY OF TOM GLEASON, VICE PRESIDENT,<br>MARKETING AND SALES, WARD MANUFACTURING, INC.   | 24   |
| TESTIMONY OF BOB KIM, VICE PRESIDENT,<br>MANUFACTURING, ANVIL INTERNATIONAL, INC.            | 30   |
| TESTIMONY OF ROBERT CLARK, PRESIDENT,<br>CLARK SPRINKLER SUPPLY                              | 32   |
| TESTIMONY OF FRANK FINKEL, PRESIDENT,<br>DAVIS WARSHOW                                       | 35   |
| TESTIMONY OF ROBERT BLAIR, PRESIDENT & CEO,<br>TIOGA COUNTY DEVELOPMENT CORPORATION          | 38   |
| TESTIMONY OF JOHN E. MARTIN, VICE PRESIDENT,<br>NATIONAL ACCOUNTS, ANVIL INTERNATIONAL, INC. | 94   |
| TESTIMONY OF KEVIN BARRON, OPERATIONS MANAGER,<br>WARD MANUFACTURING, INC.                   | 115  |
| CLOSING STATEMENT OF ROGER B. SCHAGRIN, ESQUIRE,<br>SCHAGRIN ASSOCIATES                      | 122  |

P R O C E E D I N G S

(9:35 a.m.)

1  
2  
3 CHAIRMAN OKUN: Good morning. On behalf of  
4 the United States International Trade Commission, I  
5 welcome you to this hearing on Investigation No.  
6 731-TA-990 (Final), involving Non-Malleable Cast Iron  
7 Pipe Fittings From China.

8 The purpose of this investigation is to  
9 determine whether an industry in the United States has  
10 been materially injured or threatened with material  
11 injury or the establishment of an industry in the  
12 United States is materially retarded by reason of less  
13 than fair value imports of subject merchandise.

14 Schedules setting forth the presentation of  
15 this hearing and testimony of witnesses are available  
16 at the Secretary's desk. I understand the parties are  
17 aware of the time allocations. Any questions  
18 regarding time allocations should be directed to the  
19 Secretary.

20 Since all written testimony will be entered  
21 in full into the record, it need not be read to us at  
22 this time. All witnesses must be sworn in by the  
23 Secretary before presenting testimony.

24 Copies of the notice of institution, the  
25 tentative calendar and transcript order forms are

1 available at the Secretary's desk. Transcript order  
2 forms are also located in the wall rack outside the  
3 Secretary's office.

4 Finally, if you will be submitting documents  
5 that contain information you wish classified as  
6 business confidential, your requests should comply  
7 with Commission Rule 201.6.

8 Madam Secretary, are there any preliminary  
9 matters?

10 MS. ABBOTT: No, Madam Chairman.

11 CHAIRMAN OKUN: Very well. Will you please  
12 announce our first congressional appearance?

13 MS. ABBOTT: The Honorable Joseph R. Pitts,  
14 United States Congressman, 16th District, State of  
15 Pennsylvania.

16 CHAIRMAN OKUN: Good morning, Congressman  
17 Pitts. Welcome. You may proceed.

18 REP. PITTS: Thank you. Thank you, Chairman  
19 Okun and members of the Commission, for the  
20 opportunity to testify this morning regarding less  
21 than fair value imports of non-malleable cast iron  
22 pipe fitting from China.

23 I last testified before the Commission  
24 during its investigation into unfair steel imports and  
25 the injury it was causing to our domestic steel

1 industry. This morning I am here again because unfair  
2 import practices have hurt U.S. businesses. I am  
3 talking specifically about injury caused to Anvil  
4 International and Ward Manufacturing, Inc.

5 Anvil, which is based in Portsmouth, New  
6 Hampshire, has a major foundry located in Columbia,  
7 Pennsylvania, in my congressional district. As you  
8 know, Anvil manufactures malleable and non-malleable  
9 fittings that are used in oil, water and gas pipe  
10 systems and fire protection. It is a major employer  
11 in my district, with approximately 1,000 employees.

12 Unfortunately, Anvil faces a tough road  
13 towards sustaining its foundry operations. It has  
14 recently had to reduce its work force, and unless  
15 corrective measures are implemented on the unfairly  
16 priced imports of cast iron fittings entering our  
17 markets more jobs will be lost.

18 This case has been open for almost one year.  
19 On September 25, the Commerce Department issued its  
20 preliminary affirmative determination of sales at less  
21 than fair value on non-malleable fittings. The  
22 Department determined ranges from 12 to 55 percent.  
23 Unfortunately, I am disappointed in the final Commerce  
24 Department margins that were announced yesterday. The  
25 base level was dropped from 15 percent to six percent.

1           I am concerned that the final antidumping  
2 margins do not adequately reflect the serious nature  
3 of these imports and their impact on Anvil. The  
4 bottom line is that due to unfair pricing of imports,  
5 Anvil cannot remain competitive with the Chinese  
6 businesses cited by the Department of Commerce. If  
7 Anvil were to lower their prices to equal that of the  
8 imports from China, they would go out of business.

9           Unfortunately, if the disparity remains they  
10 will face the possibility of going out of business.  
11 It is a Catch-22. Anvil has shown that they have  
12 taken considerable steps to consolidate their  
13 business, increase efficiency and decrease overhead,  
14 but they still cannot keep up.

15           Since first being elected to Congress in  
16 1996, I have steadfastly supported free and fair  
17 trade, and I believe that if we don't trade our  
18 economy will not grow. This means we have to open up  
19 our economy to imports from other nations, but that  
20 doesn't mean we should turn a blind eye when those  
21 nations flood our markets with products so cheap that  
22 it injures U.S. businesses and causes a loss of jobs.

23           I believe it is important that we are able  
24 to maintain a strong manufacturing base for our  
25 country and in Pennsylvania. The trade laws remain

1 the only recourse left for U.S. producers to use to  
2 challenge unfairly traded imports. Therefore, I  
3 believe it is imperative that the Commission take into  
4 serious consideration the effect these imports have  
5 had on Anvil.

6 If the Commission fails to recommend  
7 corrective measures necessary to promote fair trade,  
8 there will be considerable harm to Anvil, leading to  
9 an additional loss of jobs and an uncertain future for  
10 Anvil and the economy of Columbia, Pennsylvania.

11 I appreciate the efforts the Commission has  
12 taken to insure that U.S. companies are able to  
13 compete in the global market, and I request an  
14 affirmative injury determination. It will send a  
15 message that trade with the United States must be free  
16 and fair.

17 Again, thank you, Madam Chairman, for the  
18 opportunity to testify, and I yield back the balance  
19 of my time.

20 CHAIRMAN OKUN: Thank you, Congressman  
21 Pitts.

22 Let me turn to my colleagues to see if they  
23 have questions.

24 (No response.)

25 CHAIRMAN OKUN: No? If not, we will turn to

1 Congressman Peterson.

2 MS. ABBOTT: The Honorable John E. Peterson,  
3 United States Congressman, 5th District, State of  
4 Pennsylvania.

5 REP. PETERSON: Good morning, Madam Chairman  
6 and panel. I consider it an honor and a privilege to  
7 be here this morning.

8 You have, in my view, a very important job.  
9 Our manufacturing base in this country is being  
10 challenged. We have got to determine what trade is  
11 appropriate and fair, free and fair.

12 I am Congressman John Peterson. I represent  
13 Pennsylvania's 5th Congressional District. I want to  
14 thank you for affording me this opportunity to testify  
15 before you today on an issue so very important to the  
16 economic well-being of central Pennsylvania.

17 I would like to thank my colleague,  
18 Congressman Pitts, for his involvement in this matter.  
19 Finally, I would like to thank my constituents who are  
20 here today, Tom Gleason and Kevin Barron of Ward  
21 Manufacturing, their customers, and Robert Blair of  
22 the Tioga County Economic Development Office for  
23 lending his expertise and support.

24 Madam Chairman, I will allow the experts  
25 here this morning to detail the exact nature of what I

1 believe to be a legitimate case filed against foreign  
2 competitors for dumping imports at a less than fair  
3 market value and will not spend a substantial amount  
4 of time on testimony discussing those details.

5           Rather, I hope to emphasize to the  
6 Commission the utmost importance I place on the  
7 principle of fair trade, as well as the significant  
8 negative economic impact being felt in Tioga County,  
9 Pennsylvania, as a result of this unfair trade  
10 practice.

11           Since coming to Congress seven years ago, I  
12 have always preached the value of free trade. I  
13 believe America must actively take part in the global  
14 marketplace and export our goods, services and values  
15 around the globe. This allows us to nurture  
16 international democracy while influencing change in  
17 non-democratic nations, but free trade fails unless it  
18 is free and fair trade.

19           If American industry is not on a level  
20 playing field with foreign competitors, free trade  
21 does not work. In my view, Ward and Anvil, the last  
22 two American producers of cast iron pipe fittings, are  
23 playing against a very stacked deck.

24           Ward Manufacturing is located in Tioga  
25 County in the small town of Blossburg. The county has

1 a population of less than 42,000 people. This company  
2 has 800 employees. It is the largest employer and one  
3 of the economic engines in a region being devastated  
4 by our struggling economy.

5 You see, rural America is always the first  
6 to feel economic pain and the last to recover. My  
7 congressional district in the north central and  
8 northwest part of Pennsylvania is larger than the  
9 State of New Jersey and experienced an exodus of  
10 businesses one after another in recent years and can  
11 ill afford to lose any more employers, particularly at  
12 the hands of unfair competition from abroad.

13 Much of my district is witnessing the loss  
14 of multiple manufacturing clusters and several major  
15 employers, in my view, largely due to a lack of highly  
16 skilled workers and the classrooms and teachers needed  
17 to train them to be competitive in the twenty-first  
18 century labor market. Pennsylvania must remedy this  
19 issue, and I certainly hope they will.

20 What we cannot fight are foreign  
21 competitors, free of the stringent regulatory  
22 environment our domestic industries must operate  
23 within, flooding our markets with products priced well  
24 below fair market value. This is not fair trade.

25 Ward, which is one of the two remaining

1 American producers of pipe fittings, is suffering from  
2 this dumping at a time when the region is struggling  
3 to climb out of a difficult economic downturn.  
4 Regardless of the economic situation facing the  
5 region, this case certainly must be considered on its  
6 merits.

7           These merits were first brought to light  
8 nearly a year ago when a petition was filed with the  
9 U.S. International Trade Commission and the U.S.  
10 Department of Commerce by Anvil International and Ward  
11 Manufacturing alleging that an industry in the United  
12 States was materially injured or threatened with  
13 material injury by reason of less than fair value  
14 imports of non-malleable cast iron pipe fittings from  
15 China.

16           The Department of Commerce, International  
17 Trade Administrative Office, quickly launched an  
18 investigation, and in April of last year the  
19 Commission issued an affirmative preliminary vote.  
20 After following this case from its inception, I wrote  
21 to Secretary Evans in December, along with several of  
22 my Pennsylvania colleagues, including Senators Specter  
23 and Santorum, Congressman Pitts and Congressman  
24 English, requesting the Department's due consideration  
25 in this case.

1           I was pleased to receive the Secretary's  
2       swift response and his assurance that the Department  
3       is committed to the vigorous enforcement of our trade  
4       laws. The Secretary has also noted that the  
5       complexities of this particular investigation  
6       compelled the Department to extend its deadline to  
7       issue its final determination to February 12, 2003,  
8       thus allowing all of us the opportunity to meet here  
9       this morning.

10           Madam Chairman and members of the panel, I  
11       can only begin to appreciate these complexities which  
12       the Secretary noted and the difficulty each of you  
13       face in sorting through the details of this case.  
14       However, my observations in the case is that the  
15       evidence is overwhelming that foreign competitors have  
16       unfairly dumped their products in American markets at  
17       less than market value, flying in the face of fair  
18       trade.

19           I, therefore, respectfully request that the  
20       Commission duly consider the facts presented this  
21       morning and, in doing so, make your determination  
22       consistent with the fair trade principles which afford  
23       the manufacturers here today the level playing field  
24       needed to compete in the international marketplace.

25           I wish you well in your deliberations and

Heritage Reporting Corporation  
(202) 628-4888

1       thank you for hearing my testimony this morning.  
2       Having had many different types of companies in my  
3       district face difficult what I call unfair trade  
4       across the world, I think it is paramount that this  
5       country figure out what kind of capacity needs to  
6       remain in this country so that we remain the only  
7       world power.

8                 If we are going to be the only world power,  
9       we must have the ability to manufacture things that  
10      are needed to defend this country and to have a strong  
11      economy. In my view, I think we are getting woefully  
12      weak. A country that just serves itself and each  
13      other is not a strong country. It is not a country.

14                This country was built on manufacturing and  
15      processing and leading the world in technology and  
16      leading the world. I think, you know, we have a lot  
17      of global corporations who suddenly have no more  
18      loyalty to any one country, especially their homeland.

19                We as a nation must have trade laws and  
20      enforcement of trade laws that we maintain, a strong  
21      manufacturing base and processing base that allows us  
22      to remain the leader of the world, and I hope that  
23      your decisions will take us there.

24                CHAIRMAN OKUN: Thank you for your  
25      testimony.

1           Let me see if my colleagues have questions.

2           (No response.)

3           CHAIRMAN OKUN: No. I want to thank both of  
4 you again for testifying this morning, and we will let  
5 you go back to your job down the road. Thank you.

6           REP. PETERSON: Thank you very much.

7           MS. ABBOTT: Opening remarks on behalf of  
8 the Petitioners will be made by Roger B. Schagrín,  
9 Schagrín Associates.

10          CHAIRMAN OKUN: Good morning, Mr. Schagrín.

11          MR. SCHAGRIN: Good morning, Chairman Okun  
12 and members of the Commission. For the record, my  
13 name is Roger Schagrín of the law firm of Schagrín  
14 Associates, and I am counsel for Petitioners Anvil and  
15 Ward.

16                 It is unfortunate that none of the importers  
17 of the subject Chinese products nor the Chinese  
18 producers decided to appear today before the  
19 Commission to oppose the imposition of antidumping  
20 duties, particularly given the fact that three  
21 importers appeared at the preliminary staff conference  
22 and all of the major Chinese producers participated  
23 vigorously, if not always truthfully, in the  
24 Department of Commerce investigation.

25                 It is also unfortunate for this Commission

1 that in spite of the best efforts of your staff that  
2 many importers and virtually all foreign producers  
3 have reduced to participate in this final  
4 investigation by supplying questionnaire responses to  
5 the Commission and, thus, in my opinion, have shown  
6 disrespect for this Commission.

7 The domestic industry is here, and we and  
8 you still have much work to do. We are grateful for  
9 the appearances of Congressmen Pitts and Peterson this  
10 morning because these two foundries, Anvil and Ward,  
11 are vital to their communities and the congressional  
12 districts in which they are located.

13 For this reason, it is critical that the  
14 Commission find that there is one domestic like  
15 product like the imported product subject to the scope  
16 of the investigation. As will be described during the  
17 hearing, the ductile threaded fittings and cast iron  
18 threaded fittings have different iron chemistries, but  
19 otherwise share similar physical characteristics.

20 The Chinese foundries that make cast iron  
21 fittings can make ductile threaded fittings. These  
22 products have the same channels of distribution, the  
23 same customer perceptions, similar prices and, most  
24 importantly, the only party that contested the like  
25 product issue, JDH, admitted at the preliminary staff

1 conference that 95 percent of their ductile threaded  
2 fitting imports were for the sprinkler system market,  
3 the same use as 90 percent of the cast iron fittings.

4 A finding of a separate like product and no  
5 injury on ductile fittings would quickly lead to  
6 ductile imports replacing cast iron and the decimation  
7 of this industry. We will have wasted a year of work  
8 on this case, and the industry will have received no  
9 relief.

10 There is no question as to the injury to the  
11 domestic industry caused by increasing imports.  
12 Imports have risen by volume and market share  
13 throughout the period of investigation,  
14 notwithstanding the fact that imports have been under  
15 reported in the staff report because of a lack of  
16 cooperation by importers.

17 Every indicator of injury fell significantly  
18 over the POI. Market share, capacity utilization, all  
19 of the employment indicators fell drastically, and  
20 profitability virtually disappeared for this industry  
21 over the period of investigation. Imports  
22 consistently undersold the domestic industry, and this  
23 underselling increased as injury to the industry  
24 worsened.

25 There is clear evidence that price

1 suppression and depression occurred in the last full  
2 year and the interim period of the POI. There should  
3 be no reason for the Commission to even have to  
4 consider threat in this case, but, if it does, an  
5 affirmative finding of threat would be appropriate.

6 There has been massive underselling.  
7 Imports have increased their market share rapidly.  
8 Inventories have skyrocketed. The Chinese have  
9 unlimited capacity to shift to what is the only major  
10 market in the world for non-malleable pipe fittings.  
11 Adverse inferences should be used against the Chinese  
12 industry if they continue to refuse to cooperate in  
13 this investigation.

14 Coupled with a very weak domestic industry,  
15 the threat of further injury to this industry is both  
16 real and imminent.

17 Thank you very much.

18 CHAIRMAN OKUN: Thank you.

19 Madam Secretary, will you please call the  
20 first panel?

21 MS. ABBOTT: In support of the imposition of  
22 antidumping duties, on behalf of Anvil International,  
23 Inc. and Ward Manufacturing, Inc., Thomas E. Fish,  
24 president, Bob Kim, vice president, Manufacturing,  
25 John E. Martin, vice president, National Accounts, and

1 William E. Strouss, vice president, Finance, Anvil,  
2 Inc.; Tom Gleason, vice president, Marketing and  
3 Sales, and Kevin Barron, operations manager, Ward  
4 Manufacturing, Inc.;

5 Robert Blair, president and chief executive  
6 officer, Tioga County Development Corporation; Robert  
7 Clark, president, Clark Sprinkler Supply; Frank  
8 Finkel, president, Davis Warshow; and Roger B.  
9 Schagrin of Schagrin Associates.

10 The witnesses have been sworn.

11 CHAIRMAN OKUN: Thank you very much.

12 Welcome to all of you. You may proceed when  
13 you're ready, Mr. Schagrin.

14 MR. SCHAGRIN: Thank you again, Chairman  
15 Okun, members of the Commission. As you can see, the  
16 witnesses before you today in support of the  
17 imposition of duties are a very experienced and  
18 diverse group of witnesses. We have the president of  
19 the largest U.S. manufacturer, Anvil, as well as the  
20 company's heads of marketing, operations and financial  
21 respectively. We have the head of marketing and  
22 operations for Ward, the other major U.S.  
23 manufacturer.

24 We have two important and extremely  
25 knowledgeable and experienced customers, and we also

1 have the president of the Tioga County Development  
2 Corporation because, as Congressman Peterson  
3 mentioned, Ward is the largest employer in that  
4 county.

5 I would like to ask Mr. Fish to present his  
6 testimony.

7 MR. FISH: Thank you, Roger.

8 Good morning, Chairman Okun, members of the  
9 Commission. For the record, my name is Tom Fish. I  
10 am president of Anvil International. I am joined here  
11 today by several of my key managers, including Bob  
12 Kim, vice president of Manufacturing, John Martin,  
13 vice president of National Accounts, and Bill Strouss,  
14 vice president of Finance.

15 First a little background on Anvil  
16 International. Anvil is a manufacturer and master  
17 distributor of non-malleable pipe fittings, commonly  
18 known as cast iron fittings, malleable pipe fittings  
19 and other flow control products. We manufacture these  
20 products in our plants and distribute these products  
21 through our five U.S. regional distribution centers.

22 We compete directly with other U.S.  
23 manufacturers, as well as directly with some companies  
24 such as Matco Norker, Smith Cooper and Star Pipe.  
25 These companies act as master distributors the same

1 way that Anvil does, except they sell Chinese and  
2 other foreign products.

3 Anvil was founded in 1850, and until 1999 we  
4 were known as Grinnell. We have been known by ITT  
5 from 1969 to 1986, by Tyco from 1986 to 1999, and we  
6 are currently owned by DLJ Merchant Banking, otherwise  
7 known as Credit Suisse First Boston.

8 I personally have been with Anvil for over  
9 21 years and have seen many changes to our company and  
10 the industry during these years. The problem that our  
11 company faces today with regard to Chinese non-  
12 malleable fittings and other Chinese products  
13 threatens our very existence.

14 Historically, Anvil owned and operated two  
15 foundries that produced pipe fittings. Our  
16 Statesboro, Georgia, foundry was dedicated to the  
17 manufacture of non-malleable pipe fittings, and our  
18 Columbia, Pennsylvania, foundry manufactured malleable  
19 pipe fittings and other ductile products. As recently  
20 as 1996, these two foundries employed over 1,800  
21 people. For reasons that I will describe in a moment,  
22 we now have one foundry, and that facility employs 900  
23 people.

24 Over the last 10 years, demand for non-  
25 malleable cast iron fittings has actually increased,

1 yet we have witnessed the closure of three major  
2 competitors between 1992 and 1996 -- U-Brand,  
3 Stockholm and Stanley Flag. The presence of imported  
4 Chinese cast iron and ductile iron threaded fittings  
5 at prices below our cost of production has resulted in  
6 a significant domestic market share erosion.

7 This steady volume decline resulted in  
8 excess capacity at our foundries. As you know, or may  
9 not know, but it is true that foundries in the U.S.  
10 have extremely high fixed cost structures due to the  
11 environmental, energy, medical and safety costs.  
12 Declining capacity utilization adds exponentially to  
13 increases in our unit cost.

14 In an attempt to remain competitive, in 2001  
15 we were forced to consolidate our foundry operations  
16 by selling the Statesboro, Georgia, facility to a  
17 third party and moving the non-malleable pipe fitting  
18 production into the Columbia foundry. This was a  
19 business decision that was not made lightly in that we  
20 spent over \$20 million on equipment and infrastructure  
21 improvements to our Columbia foundry, and also that  
22 includes the closure costs for our Statesboro foundry.

23 Despite these investments, we have seen our  
24 profitability fall tremendously on non-malleable pipe  
25 fittings over the last several years. We have

1 continued to lose market share to imports from China.  
2 The pricing data that the Commission gathered will  
3 show that Chinese prices are as much as 40 or 50  
4 percent below our prices. Because the prices of  
5 Chinese non-malleable fittings are often below our  
6 cost of production, we cannot lower our prices to  
7 compete with Chinese products or we'd be out of  
8 business.

9 Most important, as we have consistently lost  
10 market share to the Chinese, we have had to  
11 rationalize capacity at the cost of both profits and  
12 employment. You can see from our questionnaire  
13 response the steep reductions in both employment and  
14 profits over the period of investigation.

15 In summary, we are faced with a serious  
16 situation at Anvil. We have consolidated our  
17 operations. We've invested a significant amount of  
18 money in our plant. We have the people and equipment  
19 to manufacture a quality product. However, all our  
20 actions and investments are at risk due to the fact  
21 that the Chinese product is being sold at unfair  
22 prices.

23 On behalf of the 2,700 Anvil employees, of  
24 which approximately 900 work in our Columbia foundry,  
25 we ask the Commission make an affirmative injury

1 determination so that we can keep our Columbia foundry  
2 operating and continue to reinvest in the foundry to  
3 be able to be in compliance with the very strict  
4 environmental and safety standards that we must meet.

5 Thank you very much.

6 CHAIRMAN OKUN: Thank you.

7 MR. SCHAGRIN: Thank you, Mr. Fish.

8 Mr. Gleason?

9 MR. GLEASON: Good morning. Good morning,  
10 Chairman Okun and members of the Commission. For the  
11 record, my name is Tom Gleason. I am vice president  
12 of Sales and Marketing for Ward Manufacturing of  
13 Blossburg, Pennsylvania. I have been in the pipe  
14 fitting business for more than 30 years, but we don't  
15 want to go there, and I've been with Ward  
16 Manufacturing since 1989.

17 Accompanying me today is Mr. Kevin Barron.  
18 Mr. Barron is a member of the ASME, which is the  
19 American Society for Mechanical Engineers, B-16  
20 Subcommittee for Threaded Fittings. He is also a  
21 member of MSS, the Manufacturers Standardization  
22 Society of Valves and Fittings.

23 In addition, Mr. Barron is the American  
24 representative for ANSI, the American National  
25 Standards Institute, for ISO, which is the

1 International Standards Organization, Technical  
2 Committee 5, Subcommittee 5, for Pipe Fittings. Mr.  
3 Barron will not testify today, but he is here to  
4 address any technical issues which you may have.

5 Ward Manufacturing was founded in 1924 in  
6 Blossburg, Pennsylvania, as a cast iron pipe fitting  
7 producer beginning with the production of non-  
8 malleable cast iron pipe fittings. Ward added the  
9 manufacturing of malleable pipe fittings to its  
10 product line in the 1930s. Ward has always been a one  
11 foundry operation in Blossburg and today employs 800  
12 people. Hitachi Metals America purchased the company  
13 in 1989.

14 The non-malleable pipe fittings, which are  
15 the subject of our petition, include cast iron and  
16 ductile iron fittings. These are made in a foundry by  
17 melting steel scrap with coke. Coke is an energy  
18 source for cupola melting and contributes carbon.  
19 Alloying materials are added to the liquid iron once  
20 the iron is produced.

21 The liquid iron is then transferred into a  
22 holding furnace where final adjustments to the iron  
23 chemistry are made. The liquid iron is then poured  
24 into molds and are cast into the shapes desired with  
25 sand cores used to hollow sections of the pipe

1 fittings.

2           After the product is made, it then goes to  
3 the finishing department for grinding, shot blasting  
4 and where the final threading is performed. The  
5 fitting is then packaged for shipment.

6           The production of any cast iron product is a  
7 hot, difficult and dangerous environment. Ward prides  
8 itself in having an OSHA compliant workplace and  
9 attempts to insure a safe environment for our work  
10 force. As with the environmental expense, which I  
11 will discuss later, these are expenses that our  
12 Chinese competitors do not have.

13           The difference between non-malleable and  
14 malleable fittings is the chemistry, the micro  
15 structure and material strength. The products are  
16 also different in size and weight because malleable  
17 iron pipe fittings have different material strengths.  
18 This, in combination with heat treatment, makes the  
19 malleable iron pipe fitting a stronger product than  
20 the non-malleable pipe fittings.

21           Non-malleable pipe fittings are primarily  
22 used to connect fire protection sprinkler piping  
23 systems and for steam lines and for steam heat, which  
24 continues to exist in some of the older cities,  
25 particularly in the northeast. Ductile threaded

1 fittings and cast iron threaded fittings are used  
2 interchangeably in these applications. These are all  
3 non-critical applications.

4 Malleable pipe fittings, on the other hand,  
5 are primarily used in natural gas lines, oil lines, as  
6 well as for furnace and boiler connections, more or  
7 less in critical applications. To my knowledge, the  
8 United States is the only major market in the world  
9 for non-malleable cast iron fittings.

10 Ward sells our non-malleable pipe fittings  
11 through distributors or wholesalers on a nationwide  
12 basis. These distributors in turn sell to fire  
13 protection, sprinkler contractors or HVAC -- heating,  
14 ventilating, air conditioning -- contractors for use  
15 with steam lines. The Chinese sell using the same  
16 distribution system; only they utilize U.S. agents or  
17 brokers to sell to these distributors.

18 Over the past several years, we have seen  
19 almost all of our major customers, most of whom have  
20 purchased 100 percent domestic before the Chinese pipe  
21 fittings arrived in the marketplace, switch to buying  
22 at least some Chinese fittings. We have seen this  
23 accelerate until the Department's preliminary dumping  
24 determination.

25 Mail order teeth are terrible. Sorry,

Heritage Reporting Corporation  
(202) 628-4888

1 Roger.

2 MR. SCHAGRIN: I would say don't quit your  
3 day job, but you may not have a day job. It's okay,  
4 Tom. Maybe you'll make it on the comedy circuit.  
5 Carry on.

6 MR. GLEASON: All right. We'll try. Excuse  
7 me.

8 MR. SCHAGRIN: Just remember where you were.

9 MR. GLEASON: Yes, sir. We saw our order  
10 book and our sales volume fall significantly as a  
11 result of the dumped Chinese competition. As a  
12 result, employees were laid off, and our profits fell  
13 significantly.

14 Our single largest distributor began buying  
15 Chinese pipe fittings only in 2001, and we believe  
16 they greatly expanded their volume of Chinese pipe  
17 fittings purchased in 2002 at our expense. Our  
18 business is suffering as a result.

19 Mr. Tom Fish of Anvil has explained to you  
20 the foundry business is a capital intensive business,  
21 and high capacity utilization rates are critical to  
22 keeping our unit costs down. As our volume suffered  
23 in the face of losing business to the Chinese pipe  
24 fittings, our per unit costs increased significantly.  
25 This is made clear in our questionnaire response to

1 the Commission.

2 In addition to the normal capital costs of a  
3 significant piece of equipment such as an iron  
4 foundry, producers in the United States also face  
5 tremendous environmental costs that we do not believe  
6 are shouldered by the Chinese foundries.

7 Ward has always had extensive emissions  
8 control equipment to comply with the Clean Air Act.  
9 However, with recent changes being made to the Clean  
10 Air Act Ward has been told by the Pennsylvania EPA  
11 that we must install a \$6.9 million emission control  
12 system for our cupola to continue to be in compliance  
13 with the Clean Air Act. This significant capital  
14 expenditure and the additional expense of complying  
15 with the new provisions of the Clean Air Act will  
16 again increase Ward's cost of doing business.

17 Without the imposition of dumping duties on  
18 our Chinese competitors, Ward is greatly concerned  
19 about our ability to stay competitive and continue in  
20 the pipe fitting business. Therefore, on behalf of  
21 Ward's 800 employees in Blossburg, Pennsylvania, I ask  
22 the Commission to make an affirmative final injury  
23 determination in order to preserve Ward's over 75 year  
24 history in Blossburg.

25 Thank you very much.

Heritage Reporting Corporation  
(202) 628-4888

1 CHAIRMAN OKUN: Thank you.

2 MR. SCHAGRIN: Thank you, Tom.

3 Bob Kim?

4 MR. KIM: Good morning, Chairman Okun and  
5 members of the Commission. For the record, my name is  
6 Bob Kim, and I am vice president of Manufacturing at  
7 Anvil International. I have been involved in  
8 manufacturing for 24 years, and I have been in Anvil's  
9 pipe fitting foundries for the last 10 years.

10 I was the general manager of the Statesboro,  
11 Georgia, foundry from 1997 until its sale in 2001. At  
12 Statesboro, we manufactured cast iron pipe fittings  
13 and specialty castings for automotive, agricultural  
14 and other industrial uses, but cast iron pipe fitting  
15 accounted for more than half of the Statesboro  
16 foundry's sales and was our primary focus.

17 Statesboro was an efficient, high quality  
18 foundry and was considered a model in the industry.  
19 The plant was an ISO 9002, QS 9000, and a Ford Motor  
20 Company's Quality One certified foundry. Our cast  
21 iron pipe fitting quality was outstanding.

22 As Mr. Fish indicated in his testimony, U.S.  
23 foundries have an extremely high cost structure in  
24 comparison to Chinese foundries. For example, our  
25 average direct labor cost in our Columbia plant is

1 over \$15 per hour. Our fringe benefit cost, including  
2 employer paid medical, pension and related taxes, is  
3 close to 30 percent.

4 In addition to labor costs, U.S. foundries  
5 have high environmental and safety costs. U.S.  
6 foundries also have a higher investment in automated  
7 equipment requiring high maintenance and repair  
8 expenses. These costs must be spread over the actual  
9 production such that as capacity utilization falls  
10 these costs must be absorbed by lower unit volume,  
11 thus increasing unit cost.

12 As our total capacity utilization fell at  
13 both our Statesboro and Columbia plants, our only  
14 strategy was to consolidate production with the total  
15 overhead and spread that overhead over a higher unit  
16 volume to reduce unit cost. As Mr. Fish stated, we  
17 have accomplished that, but at considerable expense.

18 Despite that consolidation, the price of  
19 Chinese product in our markets is so low that we  
20 continue to lose market share, our capacity  
21 utilization continues to fall, our unit costs continue  
22 to rise, and the disparity between these unfair import  
23 prices and our production cost widens.

24 It was difficult for me personally to see  
25 many of my friends and co-workers in Statesboro,

1 Georgia, lose their jobs. I do not want to see that  
2 happen in Columbia, Pennsylvania. We urge you to  
3 weigh the considerable data that you have and return  
4 an affirmative injury determination in this case and  
5 help us maintain a viable, competitive business in the  
6 U.S.

7 Thank you for the opportunity to testify  
8 here.

9 CHAIRMAN OKUN: Thank you.

10 MR. SCHAGRIN: Thanks, Bob.

11 Bob Clark?

12 MR. CLARK: Good morning, Chairman Okun and  
13 members of the Commission. For the record, my name is  
14 Robert Clark, and I am president of Clark Sprinkler  
15 Supply Company, St. Louis, Missouri.

16 We were founded in 1982, and we are a  
17 distributor of fire sprinkler products to the fire  
18 sprinkler contractors. We have 12 stocking locations  
19 around the United States, including ones in the cities  
20 of Pittsburgh, Fort Wayne, Chicago, St. Louis,  
21 Memphis, Dallas, Oklahoma City, Tulsa, Kansas City,  
22 Los Angeles, San Francisco and Portland. We are  
23 certainly one of the largest independent distributors  
24 of fire sprinkler products.

25 As our principal products, we distribute

Heritage Reporting Corporation  
(202) 628-4888

1 steel sprinkler pipe, non-malleable cast iron  
2 fittings, pipe hangers, sprinkler heads and valves.  
3 We are a very large purchaser of non-malleable cast  
4 iron fittings. We prefer to purchase and sell  
5 domestic product.

6           However, over the last two to three years we  
7 have seen the Chinese cast iron pipe fittings being  
8 offered by other distributors to our customers at  
9 prices 30 to 35 percent below our prices. As a  
10 result, Clark has had no alternative but to begin  
11 purchasing Chinese cast iron pipe fittings in order to  
12 be competitive.

13           Anvil, our principal domestic supplier, has  
14 lost significant volume of business with us as we have  
15 been forced to shift more of our purchases to the  
16 Chinese products. In addition, we have also seen  
17 certain marketplaces, Chicago being one of them, a lot  
18 of ductile iron fittings being sold by competitors to  
19 our sprinkler contractors.

20           These ductile pipe fittings are replacing  
21 our domestic cast iron pipe fittings in the same  
22 applications and costing us business because they are  
23 being sold at lower prices than our products. In a  
24 sprinkler system, there is simply no difference  
25 between using cast iron or ductile threaded fittings.

1                   What has happened to our business over the  
2 last couple of years may simply be a precursor of  
3 significantly greater volumes of imports from China in  
4 the future. As the president of our company, I am  
5 aware of a number of importers of Chinese products and  
6 a number of Chinese foundries being represented by  
7 those importers. Without question, both the number of  
8 importers and foundries have expanded significantly  
9 over the past 12 to 18 months. Only the trade case  
10 filed by the Petitioners moderated the growth of the  
11 Chinese fittings in the U.S. market.

12                   As I stated earlier, we like to support the  
13 domestic industry in all of our product lines. On the  
14 other hand, as a privately owned company we have a  
15 huge investment in our 12 stocking locations  
16 nationwide, and we cannot afford to be uncompetitive  
17 with the distributors who handle Chinese products.

18                   I think it's appropriate for the Commission  
19 and the U.S. Government to level the playing field and  
20 give our domestic suppliers an opportunity to compete  
21 without unfair import pricing. I can tell you without  
22 any hesitation that if you make a negative  
23 determination, offers of the Chinese fittings at below  
24 market pricing are going back on my desk the next day.

25                   Without relief for the domestic producers,

Heritage Reporting Corporation  
(202) 628-4888

1 I'm going to have to abandon my domestic suppliers so  
2 that I can save my family business and our employees.  
3 Please do not force me to do that.

4 Thank you for the opportunity to testify  
5 here today.

6 CHAIRMAN OKUN: Thank you.

7 MR. SCHAGRIN: Thank you, Bob.

8 Frank Finkel?

9 MR. FINKEL: Good morning, Chairman Okun and  
10 members of the Commission. For the record, my name is  
11 Frank Finkel, and I'm the president of Davis &  
12 Warshow, a distributor of plumbing and heating  
13 products, as well as pipe valves and fittings.

14 CHAIRMAN OKUN: Could you do me a favor and  
15 just pull the mike closer?

16 MR. FINKEL: We are located in New York  
17 City. We have eight locations, seven of which are  
18 within the five burroughs. Our company was founded in  
19 1925, and I have been with the company for over 30  
20 years.

21 Our business is primarily focused on selling  
22 to contractors. Cast iron pipe fittings are among the  
23 many products that we carry. The non-malleable cast  
24 iron pipe fittings subject to investigation here are  
25 sold by us to sprinkler contractors for use in

1       sprinkler systems, as well as to plumbing and heating  
2       contractors for use with steam lines that provide  
3       steam heat in buildings.

4                 Davis & Warshow typically purchase only  
5       domestic products. Nevertheless, we have been  
6       regularly offered the Chinese non-malleable and  
7       ductile fittings by master distributors of imported  
8       products, including some of those importers appearing  
9       later this morning.

10                The prices of Chinese fittings are 30 to 40  
11       percent less than domestic prices. There are  
12       absolutely no differences between Chinese fittings and  
13       domestic fittings other than price. Based upon my  
14       experience, sprinkler systems and steam lines can be  
15       connected either with ductile threaded or cast iron  
16       threaded fittings.

17                Domestic producers do not offer ductile  
18       threaded fittings because they are more expensive to  
19       produce with no added benefit for the added cost. I  
20       heard a witness say at the preliminary conference that  
21       ductile fittings were needed for sprinkler systems in  
22       high rise buildings. In New York, we have plenty of  
23       skyscrapers, and I know of no problem with using cast  
24       iron fittings in these buildings.

25                I am very aware that some of our competitors

1 in the New York area are handling Chinese fittings and  
2 are selling them at prices that are significantly less  
3 than ours. After I came to Washington last March, we  
4 saw no change in this competition. However, by the  
5 beginning of this year we finally saw an indication  
6 that imports were drying up, and domestic producers  
7 raised their prices.

8 Having been in business as long as we have,  
9 we are very committed to a small, strong domestic  
10 supply base for our product. At the same time, no one  
11 can ignore the commercial realities of the competition  
12 being presented by Chinese products across a broad  
13 spectrum of products in our business.

14 In my opinion, unless the U.S. Government  
15 acts to impose antidumping duties on these products  
16 from China, Davis & Warshow will have to buy Chinese  
17 fittings in order to stay in business and be  
18 competitive.

19 Of course, even if Davis & Warshow becomes  
20 the last distributor in America that buys only  
21 domestic products, it is possible that Anvil and Ward  
22 will join Stockholm, Stanley Flag and U-Brand as  
23 foundries that can no longer stay in the cast iron  
24 pipe fitting business.

25 Thank you for the opportunity to testify

1 here today.

2 CHAIRMAN OKUN: Thank you.

3 MR. SCHAGRIN: Thank you, Frank.

4 Bob Blair?

5 MR. BLAIR: Good morning, Madam Chairman and  
6 Commission members. I am Robert J. Blair, president  
7 and chief executive officer of the Tioga County  
8 Development Corporation. I've been in this position  
9 for the entire nine years since the corporation was  
10 formed. I have over 28 years' experience in community  
11 and economic development.

12 The primary objective of the development  
13 corporation is to assist in the retention and creation  
14 of jobs in Tioga County. Tioga County is located in  
15 north central Pennsylvania and borders New York state.  
16 We have a population of 42,000 residents. Our county  
17 is somewhat unique in the fact that 30 percent our  
18 county economy is manufacturing compared to 22 percent  
19 in Pennsylvania and 17 percent nationally. We have a  
20 total of 3,900 manufacturing jobs in Tioga County.  
21 Ward Manufacturing in Blossburg accounts for  
22 approximately one-quarter of these jobs.

23 Based on a normal rule of thumb, there are  
24 2.5 manufacturing support positions for every  
25 manufacturing job. Ward's Blossburg plant is thus

1 also directly responsible for an additional 10 percent  
2 of the manufacturing jobs in our county. Given my 28  
3 years of experience in community economic development,  
4 I can tell you that job retention is much easier than  
5 attracting new jobs.

6 If the dumping of imports of the two  
7 products produced by Ward Manufacturing, non-malleable  
8 and malleable pipe fittings, is not halted by the U.S.  
9 Government then, as Mr. Gleason has testified, it is  
10 very doubtful that Ward's parent company would choose  
11 to continue investing in its facility in Tioga County  
12 for the cost of the environmental equipment required  
13 to keep the facility open.

14 As both a resident of Tioga County and the  
15 president of the development corporation, I cannot  
16 emphasize enough just how important Ward is to our  
17 county and our taxpayers. If Ward's facility in  
18 Blossburg were to be closed, our county hospital, our  
19 police and fire protection departments, our school  
20 system would seriously be under funded, and the county  
21 residents would suffer serious reduction in services.

22 In addition, there would be a dramatic  
23 impact on housing values, car sales, restaurant sales  
24 and other services in our country. The presence of  
25 Ward in Blossburg has allowed generations of Tioga

1 County residents to enjoy well paid jobs with good  
2 benefits that provide a middle class lifestyle for  
3 most of our county.

4 I came here today because there is truly no  
5 greater service that our corporation can provide than  
6 to preserve the largest employer in Tioga County. On  
7 behalf of the 42,000 residents of Tioga County, I  
8 respectfully request that this Commission make an  
9 affirmative injury determination in this  
10 investigation.

11 Growing up in Tioga County, I played a lot  
12 of little league baseball. We relied on the coaches  
13 to pick the best players with the most competitive  
14 attitudes. We all used the same baseball bats. We  
15 all used the same baseballs. We all played on the  
16 same field. We relied on our umpires to call a fair  
17 game.

18 We're respectfully calling on you today as  
19 the umpires for the Commission call a fair game for  
20 this industry.

21 Thank you.

22 CHAIRMAN OKUN: Thank you.

23 MR. SCHAGRIN: Thank you, Bob.

24 And now, Chairman Okun, members of the  
25 Commission, and we're going to be happy to answer your

1 questions, but since I don't think I'm going to be  
2 taking any rebuttal time today I have a few just wrap  
3 up comments to make after the testimony that you  
4 heard.

5 As you heard from these witnesses and from  
6 the two congressmen, iron foundries are a lot like  
7 steel mills. These are major, major concentrations of  
8 massive pieces of equipment that employ large numbers  
9 of people. In the areas in which these two foundries  
10 are located, there is not a lot of other manufacturing  
11 going on. These foundries are really the cornerstones  
12 of their communities, and we can ill afford to lose  
13 them. I'm sure the Commission appreciates that.

14 Unfortunately, as is amply clear by all of  
15 the Commerce Department decisions in China cases these  
16 days, these manufacturing clients of mine and all U.S.  
17 manufacturers are on the short end of U.S.  
18 international trade policy today. I mean, it is clear  
19 that since 9-11 and with the disputes with both Iraq  
20 and North Korea that the Administration is reaching  
21 out to China for support.

22 Unlike this Commission, which thankfully is  
23 a completely independent agency independent of the  
24 White House, the Commerce Department is not  
25 independent. I think after 21 years of litigating

1 before the Commerce Department and doing a number of  
2 China cases really over three decades -- some in the  
3 late 1980s, many in the 1990s and now a couple at the  
4 beginning of this decade -- the changes that you can  
5 see in these cases, because there's nothing quite set  
6 and dried in non-market economy cases like there are  
7 in market economy cases. The changes have been  
8 immense.

9 I know this Commission has seen it as well.  
10 In the mid 1990s you saw the Commerce Department find  
11 that bicycles from China weren't dumped, which I think  
12 was astounding to everyone at the time. It was  
13 essentially a death sentence by the Commerce  
14 Department on the bicycle industry.

15 You couldn't go affirmative in that case  
16 because so many of the bicycles imported from China  
17 were found to be fairly traded. Lo and behold, within  
18 a couple of years of that investigation Huffy and all  
19 the rest of the U.S. bicycle industry shut down.

20 We haven't had a chance to read the final  
21 determination in this case. It's still surprisingly  
22 yet to be issued, but the size of the margins is  
23 really astounding, particularly given the fact that  
24 during verification we found out that the claims of  
25 Chinese producers not to have certain records were in

1 fact false. They did have records on their yield  
2 losses by products, which is important because all  
3 these foundry items have different yield losses.

4 The main problem at the Department is making  
5 all of these calls in these gray areas of non-market  
6 economy cases for the Chinese, and that is very  
7 troubling. It's particularly troubling because of the  
8 problems the U.S. manufacturing sector is having. You  
9 can't pick up the *New York Times*, the *Wall Street*  
10 *Journal*, particularly local papers in Chicago,  
11 Indiana, Pennsylvania, anywhere, without reading about  
12 the demise of manufacturing jobs in this economy.

13 Yet, I ask anyone if they can find an  
14 admission from anyone at the White House or in any of  
15 the trade policy positions ever linking the massive  
16 manufacturing job losses, which have been over a  
17 million job losses in just the manufacturing section  
18 in the last two years, to the growing trade deficient.  
19 The largest part of the growing trade deficit is with  
20 China.

21 It was sad for me to see, and I have great  
22 respect for President Bush. I think he's been a great  
23 leader during very difficult times, but he was out to  
24 promote his own new economic program and went to a

1 trucking company in St. Louis to say we've got to get  
2 it rolling. We've got to get our new economic program  
3 rolling.

4 The only products that trucking company was  
5 moving were Chinese goods. He was standing in front  
6 of boxes from China that had to be taped over. That's  
7 sad. I have a lot of clients in St. Louis. St. Louis  
8 is a manufacturing center in this country, and yet the  
9 manufacturers in St. Louis aren't producing much these  
10 days because everything is coming from China.

11 I know the members of this Commission have a  
12 lot of experience in trade. We all remember back to  
13 the early 1980s when most people predicted U.S.  
14 manufacturing just wasn't going to survive. The same  
15 thing was happening then as is happening now. People  
16 predicted everything was going to be made in Japan,  
17 and nothing was going to be made in the United States.

18 At that time, President Reagan and then  
19 Secretary of the Treasury Baker recognized that the  
20 real problem was exchange rates in many respects. We  
21 had the Plaza Accords, and the dollar depreciated  
22 against the yen from 250 of the yen to 100 yen to the  
23 dollar. Lo and behold, those manufacturers who had  
24 survived the early 1980s and then who experienced  
25 tremendous productivity gains, they were all of a

1 sudden competitive because we had fair currency rates.

2 The question today is why isn't anyone  
3 forcing China to let their currency float? I met very  
4 recently with one of the main trade policy persons in  
5 the Administration who was about to go to China. I  
6 said of course making the Chinese float the yuan has  
7 to be the number one item on your agenda. This person  
8 said to me I'm not allowed to bring that up during my  
9 visits to China. That's off of the table for the U.S.  
10 Government because it's so important to the Chinese  
11 Government to keep their currency fixed.

12 The Economic Minister of China is very  
13 plain. It was quoted in the *Wall Street Journal* just  
14 a couple weeks ago. They're going to keep the yuan  
15 fixed because it helps them increase exports to the  
16 United States and the rest of the world and keeps  
17 their employment up because obviously China is a large  
18 country and needs to employ a lot of people.

19 I'm always stunned in Washington by those  
20 who favor free trade. Oh, we need free trade. We  
21 need free trade. You say well, don't you believe then  
22 in market forces? How can they defend having a  
23 country that is the largest exporter in the world  
24 having their currency fixed? It's a major problem for  
25 these companies.

1           If you look at the staff report, I think  
2           you'll be amazed at the productivity increase for  
3           these companies, which has to be confidential because  
4           there's only two of them, over the POI greatly  
5           exceeded the overall productivity increase in  
6           manufacturing over the POI. These companies had  
7           tremendous productivity increases in their work force.

8           That's true of most of the manufacturing.  
9           Manufacturing is leading this economy in terms of  
10          increases in productivity, and yet they keep losing  
11          step in terms of international competitiveness. Part  
12          of it, of course, is increasing benefit costs  
13          offsetting the productivity, but a lot of it is based  
14          on exchange rates.

15          Now, we all know that this Commission can't  
16          do anything about trade policy. I'm hoping that as a  
17          forum somebody in the Administration -- I don't get a  
18          lot of chances to speak at the White House, so I have  
19          to use this instead. Maybe somebody will review the  
20          transcript. Certainly we hope Members of Congress  
21          will become more active.

22          The one thing the ITC can do is you can make  
23          affirmative determinations in Title VII cases, in  
24          Section 421 cases. We hope that after you make  
25          affirmative determinations in Section 421 cases that

1 the President then institutes relief. If he doesn't,  
2 then I don't know why Congress passed the statute.  
3 Obviously there's a lot of politics involved in 421,  
4 as in 201, although I thought when Congress passed  
5 Section 421 they tried to take some of the politics  
6 out of the decision making.

7 We are hopeful that in the future the  
8 Commission action is combined with more fairness out  
9 of the Commerce Department. I think I failed to  
10 mention, and we'll get back into it in the malleable  
11 case, but on a not dissimilar product, a different  
12 like product, but in just the past 18 months both the  
13 European Union and Mexico have had dumping  
14 investigations on malleable pipe fittings from China.  
15 In the E.U. they found 48 percent dumping duties. In  
16 Mexico the margins were in the range of 40 percent.

17 One has to question. I mean, we're all  
18 using the same WTO dumping code. What is it that's  
19 going on in Europe and Mexico versus the United  
20 States? Why are they finding large margins against  
21 China? Are they somehow being protectionists and not  
22 properly enforcing the dumping code, or somehow have  
23 we shifted our policy to not vigorously enforcing the  
24 law?

25 I think it's going to be difficult for the

1 U.S. to defend its position to maintain strong unfair  
2 trade laws during the Doha Round negotiations if in  
3 fact we're not vigorously enforcing the laws. It  
4 makes someone like myself terribly petrified at what  
5 folks in this Administration might be willing to give  
6 up in terms of the trade laws as we go through the  
7 Doha Round.

8 With that, we would be happy to answer your  
9 questions. I think you'll find a tremendous amount of  
10 expertise on the part of this panel in the area of  
11 pipe fittings. I know that both Kevin Barron and Bob  
12 Kim have educated me tremendously over the past year  
13 about these products, and I have in turn tried, and  
14 probably failed, to educate folks at the Commerce  
15 Department on these products.

16 Thank you very much.

17 CHAIRMAN OKUN: Thank you. Before we begin  
18 our questions, let me thank the witnesses again for  
19 appearing here today, particularly the industry  
20 witnesses. We appreciate your willingness to be here  
21 and tell us a little bit more about your business,  
22 including the purchasers. I think it's always helpful  
23 to have them here as well.

24 With that, I will begin the questions this  
25 morning. We do have a lot of expertise here, and I'm

1       sure we'll have time to do the show-and-tell in front  
2       of us down the road, but let me start, if I can, maybe  
3       I guess with the purchasers in terms of trying to help  
4       me better understand how prices are set in this market  
5       and where you see the price competition.

6                     Maybe I'll start with you, Mr. Clark. You  
7       noted that you handle Anvil products, I believe you  
8       said.

9                     MR. CLARK: Yes, ma'am.

10                    CHAIRMAN OKUN: To the extent that you can  
11       talk about other purchasers, is it common in this  
12       business where a distributor would handle only one or  
13       the other? Would you handle Anvil and not Ward, or  
14       would you handle --

15                    MR. CLARK: Yes, ma'am. It would be one or  
16       the other.

17                    CHAIRMAN OKUN: One or the other. Is that  
18       common in this industry for purchasers?

19                    MR. CLARK: Yes, ma'am.

20                    CHAIRMAN OKUN: Okay. What about in terms  
21       of handling I think you had mentioned that you had  
22       purchased some Chinese product.

23                    MR. CLARK: Yes.

24                    CHAIRMAN OKUN: Mr. Finkel, you said you so  
25       far have just handled domestic?

1 MR. FINKEL: Domestic only. That's correct.

2 CHAIRMAN OKUN: Again, in your experience is  
3 it common for the purchasers out there? I've heard  
4 the talk about the master distributors. Are there  
5 master distributors for importers competing against  
6 the product that you're selling for mostly domestic?  
7 Is that how it works here?

8 MR. FINKEL: Yes. That would be correct in  
9 our market.

10 CHAIRMAN OKUN: In your market. Okay.  
11 Okay.

12 I guess maybe one of the things that as I  
13 look at the record I'm trying to understand is  
14 obviously the pricing for the product where we  
15 collected information, the Chinese prices. There was  
16 a great disparity between the domestic price and the  
17 U.S. price, but the prices didn't go down. I mean,  
18 you didn't see a decrease in the prices for all these  
19 products, even though Chinese products were well below  
20 it.

21 I wondered if both the producers and the  
22 purchasers could talk to that on why there is that  
23 disparity. I mean, I guess in other cases, and I  
24 don't know if I'm making myself very clear, but in  
25 some cases you would see a country coming in with low

1 prices, and domestic prices would follow it straight  
2 down.

3 I think I've heard you say, and you can  
4 expound on it, that in this case I think it was you,  
5 Mr. Fish, said that the industry couldn't compete on  
6 price and, therefore, it chose to keep their volume.  
7 I guess what I find interesting is not only did you  
8 not -- you managed to get some price increases in  
9 there I guess is what I'm asking you about.

10 MR. FISH: Yes, Commissioner, that is true.  
11 What we focus on at Anvil is we focus on, you know,  
12 our costs and what we can do with those costs.

13 I mean, over the last two, three and four  
14 years our cost of materials have gone up, our cost of  
15 labor. As Bob said, we pay our people about \$15 an  
16 hour. They get three to four percent increases every  
17 year by union contract that have gone up.

18 Our cost of energy has gone up. Even today  
19 as we speak, in our Columbia plant we have to work  
20 second and third shift because we can't afford the  
21 cost of energy on the first shift.

22 We have all these costs that continue to  
23 rise, and all we're trying to do is through  
24 productivity and through price increases we're trying  
25 to maintain where we are. That's been our decision.

1           You know, if you look at the other decision  
2 we could make would be to, you know, decrease prices  
3 by 25 or 30 percent and go head-to-head. We've chosen  
4 not to do that because we don't believe that long term  
5 it's a viable strategy.

6           CHAIRMAN OKUN: Okay. Mr. Gleason, could  
7 you comment on that?

8           MR. GLEASON: The cast iron product line,  
9 the pricing structure has always been competitive  
10 within the U.S. market, particularly when we had more  
11 U.S. producers -- Flag Company, Kuhn, Stockholm. I  
12 mean, we can go back a few years and go into Crane and  
13 Walworth. There were a number of pipe fitting  
14 producers. It's been a competitive market among us.

15           For a number of years in terms of real  
16 dollars there wasn't a price increase in terms of how  
17 many dollars per ton we got on that product line. It  
18 was very flat and stagnant. Over the past couple  
19 years, we have been able to get some price increases  
20 into the marketplace primarily to cover our cost.

21           Like Mr. Fish, we have a union operation.  
22 We're GMP of AFL-CIO. We've got a three year  
23 contract. We're obligated every year. Our next wage  
24 increase comes April 1. It's four percent. Next year  
25 we have negotiations for another three year contract,

1 which will start in February/March of 2004, our  
2 negotiations.

3 Through this time, in order to be a foundry  
4 today, an operating foundry today, you've had to have  
5 had kept compliant with all of the regulations. Those  
6 are costs that Ward has borne. We have probably in  
7 the last 10 years spent over \$20 million on  
8 environmental improvements to our foundry.

9 I don't have a problem with that. I believe  
10 in clean air and clean water and clean soil. God  
11 knows, I don't want our work force hurt at all, but  
12 there's a regulated cost to doing that business, so  
13 not only do you have the capital, like we're going to  
14 spend \$6.9 million, but then to run that 1,000  
15 horsepower electric motor day in and day out you have  
16 a continuing operating cost. With \$20 million spent  
17 over 10 years you have the additional operating cost  
18 of running that equipment, so our costs have not gone  
19 down at all.

20 You look at the pricing the Chinese are at,  
21 and you say okay, one would think logically --  
22 Logically, if your competitor is coming in and they've  
23 got a cheaper price, you want to be in the marketplace  
24 to compete with them. But, when they're 30, 40, in  
25 some cases, 50 percent below you, and you look at your

1 profit margin and you say, you can't get there, the  
2 only thing that you can do, at that point, is depend  
3 on the marketplace to support us. You know, thank God  
4 for customers like Davis and Warshow, that have  
5 supported the domestic industry.

6 There is no way at all possible for us to  
7 compete or for us to even taken our prices down during  
8 this influx of the Chinese product. I hope I answered  
9 your question, Ms. Chairman.

10 CHAIRMAN OKUN: That's helpful. The 6.9  
11 million figure that you referenced in your testimony  
12 and just now, that's going forward? That's a cost  
13 coming up?

14 MR. GLEASON: Yes, ma'am, it's going  
15 forward. In fact, probably in March, we're going to  
16 have to take three days out of our foundry, in order  
17 to do foundation work in the foundry. Before we can  
18 erect steel, you have to let the concrete foundations  
19 settle. We're going to have a three-week shutdown.  
20 If you'd like, I can give you a Gant chart on how  
21 we're going to spend the money between now and 2005.  
22 But, basically, our first part is structural going  
23 forward and then we're putting the dust handling and  
24 bag handling equipment.

25 CHAIRMAN OKUN: I guess the other question

1 that I was interested in, I'm not sure it's broken out  
2 in the record, is the environmental cost over the  
3 period of investigation. You referenced the \$20  
4 million figure going back a ways. And if that isn't  
5 in the record, Mr. Schagrin, both for these companies,  
6 the environmental costs over this period of  
7 investigation --

8 MR. SCHAGRIN: I'll take a look. And I do  
9 believe in our post-conference brief, we gave the  
10 Commission estimates from each company of what  
11 environmental costs were of their total costs,  
12 currently total cost.

13 CHAIRMAN OKUN: Okay. It may be there.  
14 Those numbers, I don't remember hearing.

15 MR. SCHAGRIN: But, otherwise, we'll provide  
16 it --

17 CHAIRMAN OKUN: Okay.

18 MR. SCHAGRIN: -- to you in our post-hearing  
19 brief.

20 CHAIRMAN OKUN: Okay. If I can go back to  
21 you Mr. Clark and Mr. Finkel, just on the price  
22 question over the period of investigation. How did  
23 you see it, in terms of -- I mean, I guess, you  
24 accepted the price increases you got from the  
25 producers. What about in the marketplace, in terms of

1 your competition and your ability to take that price  
2 increase?

3 CHAIRMAN OKUN:

4 MR. CLARK: Well, it widened the disparity  
5 between the Chinese imports and what we were paying.  
6 And we want to support the U.S. manufacturers to the  
7 fullest extent that we can; but when it starts to hurt  
8 you in your own pocketbook, you really begin to  
9 question what's the proper strategy, in a case like  
10 this.

11 CHAIRMAN OKUN: Okay. Mr. Finkel?

12 MR. FINKEL: In our marketplace, we have two  
13 markets. We have a union market and a non-union  
14 market. The union market does allow us to pass along  
15 those costs. Largely, our company does not  
16 participate in the non-union market, because they're  
17 typically using imported fittings.

18 CHAIRMAN OKUN: Okay. Let's see, let me  
19 just -- well, my light is going to come up, but Mr.  
20 Schagrin, can you just clear up one thing for me,  
21 which I'm just trying to understand, on the production  
22 of ductile fittings in the United States, given the  
23 information that's in the staff report, regarding U.S.  
24 production of ductile fittings? To the best of your  
25 knowledge, is there no U.S. production?

1                   MR. SCHAGRIN: To the best of our knowledge,  
2 there's essentially no U.S. production.

3                   CHAIRMAN OKUN: Okay. So, you'll comment in  
4 the post-hearing on what's being collected. Okay,  
5 that's helpful. And with that, I will turn to Vice  
6 Chairman Hillman.

7                   VICE CHAIRMAN HILLMAN: Well, thank you,  
8 very much, and I, too, would join the Chairman in  
9 thanking you for being here this morning. We very  
10 much appreciate your taking the time out of your busy  
11 days to be with us and to present this testimony.

12                   I guess if I could follow up a little bit on  
13 the Chairman's question, because I think, to me,  
14 that's one of the difficult issues to understand in  
15 this case, is when we saw this large volume of Chinese  
16 product coming into the market at these very low  
17 prices, at the same time, we see U.S. prices either  
18 flat or actually increasing over the period, that's,  
19 again, a little bit unusual for the pattern that we  
20 would normally see.

21                   I guess, Mr. Clark, if I can ask you, as you  
22 see these Chinese products come in, I'm trying to  
23 understand how the marketplace works. Do you, then,  
24 go back to the Anvil folks and say, hey, the Chinese  
25 product is coming in very low, can you -- you know, I

1 would like to continue to do business with you; you've  
2 been a loyal supplier; if you could lower your price  
3 by some, meet be half way, or some portion, I would  
4 continue to do business with you? Or is it pretty  
5 much, you just make your own decision that you're  
6 going to purchase Chinese?

7 MR. CLARK: Well, I think if it was meet me  
8 half way and the difference between the Chinese  
9 fittings and the domestic was 10 percent and I said,  
10 hey, meet me halfway at five percent, is that doable?  
11 Most certainly. But, I think the discrepancy here is  
12 so dramatic that what they would be able to offer goes  
13 well beyond their level of profitability.

14 VICE CHAIRMAN HILLMAN: I mean, so you don't  
15 even have this discussion?

16 MR. CLARK: Oh, I've had the discussion  
17 several times.

18 VICE CHAIRMAN HILLMAN: Okay, okay. But the  
19 view of the domestic producers is simply they're not  
20 going to reduce their prices?

21 MR. CLARK: I don't think that's completely  
22 true. I think they're trying to do what they possibly  
23 can. And I think what the gentlemen from the  
24 foundries are saying is that their costs are going up.  
25 I don't think they're arbitrarily just raising their

1 costs to make more money. I think they have truly --  
2 their incurring cost of production that are going up.  
3 It's not their lack of willingness. I think it's  
4 really a business decision and it's almost black and  
5 white. I mean, there's financial people here that can  
6 probably tell you exactly what it costs to make a  
7 given thing, right down to minutes, hours, and  
8 whatnot.

9 VICE CHAIRMAN HILLMAN: Okay. Now, help me  
10 on just understanding where these kind of fittings  
11 fall within the scheme of a sprinkler system you're  
12 putting in. I mean, obviously, you describe that  
13 you're using, obviously, the pipes, themselves,  
14 hangars, valves, all those sorts of things. What  
15 portion of an overall sprinkler system in a building  
16 would the fittings constitute?

17 MR. CLARK: Probably 10 percent.

18 VICE CHAIRMAN HILLMAN: Okay. So when your  
19 prices are affected, it's affecting that portion of  
20 your cost?

21 MR. CLARK: Correct.

22 VICE CHAIRMAN HILLMAN: Mr. Finkel, for you,  
23 where do pipe fittings fit in to the general mix of  
24 what you sell?

25 MR. FINKEL: Well, in a city like New York,

1 we have two markets. We have the sprinkler market and  
2 we enjoy some of that business and we'd have a similar  
3 factor, as far of percentage of business.

4 But, we, also, have a renovation and repair  
5 business. And because we do have a steam market for  
6 heating, that that is a constant amount of business  
7 that we have with our contractors. There's a  
8 reluctance on the part of contractors, a certain tier  
9 of contractors in the city of New York, to use  
10 imported product of any type and, certainly, the cast  
11 iron fittings fall into that category. But, as I said  
12 --

13 VICE CHAIRMAN HILLMAN: Could you describe  
14 that a little further? Is that a result by American  
15 provisions? You mentioned union versus non-union.

16 MR. FINKEL: I think that it's a  
17 combination.

18 VICE CHAIRMAN HILLMAN: Is that a regulation  
19 or that's just the way they prefer to do business?

20 MR. FINKEL: I think it's a combination of  
21 union activity, plus the fact that most of the people  
22 in New York City certainly are buy American pro-  
23 active. And, certainly, since 9/11, that's even been  
24 more evidence.

25 VICE CHAIRMAN HILLMAN: But when you say

1 "buy American," are you referring to a specific  
2 government regulation that in certain particular  
3 government contracted for purchases, you are required  
4 to use U.S. product; or, again, it's more a choice,  
5 that people would prefer?

6 MR. FINKEL: It's a matter of choice and  
7 preference.

8 VICE CHAIRMAN HILLMAN: Okay. It's not a  
9 government requirement?

10 MR. FINKEL: That's true. In the State of  
11 New York, at one time, had a buy American provision,  
12 but they no longer have that.

13 VICE CHAIRMAN HILLMAN: Okay. Mr. Clark, do  
14 you mingle your Chinese with your American fittings?  
15 Do purchasers specify typically that they want U.S.  
16 product as opposed to Chinese product?

17 MR. CLARK: Yes. We don't intermingle them.  
18 Our customer will ask for and, unfortunately, they  
19 base their decision on price, and we give them what  
20 they want.

21 VICE CHAIRMAN HILLMAN: So, do you typically  
22 quote, here's the sprinkler system I can put in using  
23 U.S. product and here's the system I can put in using  
24 imported product?

25 MR. CLARK: Well, we're not a contractor,

1 ma'am.

2 VICE CHAIRMAN HILLMAN: Okay.

3 MR. CLARK: We're a wholesale supplier. So,  
4 we would sell those products to the person that is  
5 putting that in.

6 VICE CHAIRMAN HILLMAN: Okay, that's  
7 helpful. A number of you talked in response to  
8 Chairman Okun about this issue of cost and, obviously,  
9 that costs are different. And this is difficult, in  
10 terms of questioning, because it is confidential data.  
11 But, part of me is trying to understand when you're  
12 talking about the fact that you perceive that your  
13 costs have gone up over the POI. I'm looking, again,  
14 specifically at our data. When I'm looking at it, I  
15 guess I'm looking initially at your cost of goods  
16 sold. And, again, the numbers, themselves, are  
17 confidential. But, I'm certainly not seeing a  
18 significant increase over the POI, in what we've  
19 collected as cost of goods sold.

20 I mean, Mr. Gleason, you talked about other  
21 investments that would not per se be a cost of goods  
22 sold item. But, I'm trying to understand -- I mean,  
23 your argument, as I hear it, on the price side, I  
24 mean, Mr. Schagrín, you said, in your opening  
25 testimony, that there has been price suppression and

1 depression. I guess, initially my question to you is,  
2 where do you see the depression? And then on the  
3 suppression side, that implies that there's a cost  
4 squeeze of some kind. And, again, I'm looking at  
5 these cost of goods sold figures and I'm not sure I'm  
6 supposed to see this squeeze coming from.

7           So, I guess if I could go back to our  
8 industry witnesses, you're telling me and, obviously,  
9 you're perceiving that your costs -- and, again, I'm  
10 now focusing on cost of goods sold -- your costs have  
11 gone up. I'm trying to square that with the data that  
12 I have in front of me. So, again, you, obviously, got  
13 raw material costs, you've got labor costs, you've got  
14 other factory costs. Where have you really seen --  
15 where do you perceive -- you've both mentioned labor.  
16 Again, I'm trying to understand where this sense of a  
17 cost increase has come from.

18           MR. FISH: From my standpoint, we look at  
19 the investments that we have to make. And you  
20 indicated that those investments do not go into your  
21 costs. But, they do.

22           VICE CHAIRMAN HILLMAN: Well, they would  
23 appear in your financials. I'm just saying, they  
24 wouldn't necessarily appear in what I would describe  
25 as your cost of goods sold.

1 MR. FISH: Yes, they would.

2 VICE CHAIRMAN HILLMAN: Obviously, they're -  
3 - all right. Then, maybe -- again, I'm trying to  
4 square your sense of costs increasing with the data  
5 that I'm looking at.

6 MR. FISH: I'm going to let my Vice  
7 President of Finance talk to that.

8 VICE CHAIRMAN HILLMAN: Okay.

9 MR. STRAUSS: I haven't obviously seen all  
10 the data, but I think that our data showed the cost of  
11 goods sold was increasing as a percentage of sales.  
12 And our costs have been increasing -- tried to have  
13 our capital investments and our productivity  
14 improvements to mitigate cost rising, but I believe  
15 our data did show that the --

16 VICE CHAIRMAN HILLMAN: Okay.

17 MR. STRAUSS: -- cost of goods sold was  
18 increasing.

19 VICE CHAIRMAN HILLMAN: Mr. Schagrin,  
20 obviously, because this is confidential information,  
21 if there is something in the post-hearing brief you  
22 want to touch on, on this. But, it brings me to a  
23 legal question more for you, which is the question we  
24 faced in a number of cases. But, I guess, I would  
25 like either an answer or perhaps something more in a

1 post-hearing brief, which is this issue of, if we find  
2 increasing volume, but, nonetheless, don't find price  
3 depression, because prices have not gone down, and on  
4 the suppression side, if it's not so clear that we  
5 really do have suppression in the sense that we're  
6 seeing a cost squeeze, is it your view that we can,  
7 nonetheless, reach an affirmative determination, where  
8 we have an increase in volume, but no price effects?

9 MR. SCHAGRIN: Unquestionably under the  
10 statute.

11 VICE CHAIRMAN HILLMAN: Okay.

12 MR. SCHAGRIN: I mean, the way the statute  
13 is set up is that you're to look at volume of imports  
14 and determine if it's been increasing and, if so,  
15 increasing significantly; you're to look at price  
16 underselling and the effect on prices; look for price  
17 suppression, price depression; and look at the affects  
18 on the industry, and then, you have a number of  
19 enumerated factors. There is no question that the way  
20 the statute works, that you can have a volume impact  
21 on the enumerated industry factors that are listed --  
22 capacity utilization, market share, employment,  
23 profitability -- and have an injury finding. There's  
24 no question that's the way the statute is laid out.

25 VICE CHAIRMAN HILLMAN: And is that this

1 case?

2 MR. SCHAGRIN: No, that's not this case, but  
3 it could be this case and the Commission should find  
4 in the affirmative. It's interesting, I just spent  
5 the weekend reading the briefs in the Nippon case and  
6 it shouldn't be the Nippon case, because there was  
7 price underselling. But, we're making the arguments  
8 to the court that you can have a volume effect. And I  
9 think that, in fact, the statute clearly lays out that  
10 the Commission can make an affirmative determination  
11 based on just volume effects.

12 What I would point out, and I can either go  
13 another time now, it will obviously go in the post-  
14 hearing brief, is, in this case, there were no price  
15 increases in 2002 interim period, but it's a long  
16 interim period. You have nine months. There was some  
17 minor lowering of prices in 2002.

18 And when we get into the data confidential  
19 in the post-hearing brief, I think the Commission will  
20 see that over the POI, largely because of the volume  
21 impact of the Chinese on lowering domestic capacity  
22 utilization, there were increases in cost of goods  
23 sold for the industry, so that these producers were  
24 suffering a cost price squeeze. And that was the  
25 reason for the tremendous drop in operating profit

1 margin and, for that matter, absolute operating  
2 profits. Clearly, the volume impact caused the  
3 profitability declines and the profit margin declines  
4 for this industry, no question of that on the record,  
5 and that supports an affirmative determination under  
6 the statute.

7 VICE CHAIRMAN HILLMAN: Thank you.

8 CHAIRMAN OKUN: Commissioner Miller?

9 COMMISSIONER MILLER: Thank you, Madam  
10 Chairman, and thank all of the witnesses for being  
11 here today and answering our questions. It's very  
12 helpful.

13 I'm just trying to decide whether -- sort of  
14 the line that Vice Chairman Hillman was going down --  
15 whether I have anything further on that, at this  
16 point, because I, otherwise, want to go off sort of in  
17 a different direction, in a minute. But, maybe, I  
18 will try to frame this one question, because I think  
19 this is what I just heard you say, Mr. Schagrin. Are  
20 you primarily attributing the increased costs  
21 perceived as a ratio of net sales, to the declining  
22 volume that the industry has experienced; as opposed  
23 to absolute increases in unit costs? I've heard  
24 mention of labor, I've heard mention of energy, I've  
25 heard mention of materials, as though it's an absolute

1 increase. What I heard you just was more related to a  
2 fixed cost being distributed across a smaller volume  
3 of product.

4 MR. SCHAGRIN: It's certainly a combination.  
5 However, I would say the largest contributor to the  
6 increased cost -- and, by the way, since you normally  
7 focus on operating margins, you've looked at both cost  
8 of goods sold and SG&A -- so, they're both costs that  
9 are, then, spread over units produced. And I think  
10 the greatest contributors to increased cost of goods  
11 sold per unit and increased SG&A expenses per unit  
12 produced is the fact that these companies have been  
13 producing so many fewer units, because of the  
14 increased imports from China and the loss of market  
15 share.

16 Secondly, I think as particularly Mr. Fish  
17 testified to, and I invite Mr. Gleason or Mr. Strauss  
18 to comment on, they have been experiencing, like  
19 virtually all U.S. manufacturers, this struggle  
20 between higher hourly labor costs, tremendously higher  
21 hourly benefit costs, particularly in terms of health  
22 care, higher energy costs, and depending over the  
23 period, sometimes higher raw material costs, sometimes  
24 lower raw material costs -- the raw material costs  
25 depended to change; all the other costs seem to be

1 just going up, and that's also contributed to average  
2 per unit cost increases.

3 One other thing to point out, which we did  
4 confidentially in the brief, it was an interesting  
5 comparison to see -- to compare increased productivity  
6 over the POI, in terms of number of units per hour  
7 worked, or number of hours it takes to product a unit,  
8 versus overall increased per unit labor costs. And so  
9 that means that the hourly total labor costs over the  
10 POI actually increased more than the increase in  
11 productivity. And there's no question, talking to  
12 these manufacturers separately about their data, the  
13 reason for that really has been the incredible  
14 escalation of benefit costs. And I invite Mr. Fish or  
15 Mr. Strauss to comment on that, or Mr. Gleason.

16 MR. STRAUSS: To answer your question, I  
17 think it is a combination of both volume decrease,  
18 which increased the overhead. It's absorbed by each  
19 unit. We've had cost increases in labor and in some  
20 of the direct costs. But, they can be mitigated  
21 somewhat by investments in technology and  
22 productivity. So, it has been a combination of both,  
23 the volume decline and absolute cost increases.

24 VICE CHAIRMAN HILLMAN: Okay. Let me go  
25 into another area, if I could, before it gets too far

1 along in my question time. Mr. Gleason, actually, you  
2 made a comment that I found kind of interesting and it  
3 intrigued me and I wanted to ask you a little bit more  
4 about it. In your initial testimony, you said that  
5 the U.S. is the only market for these non-malleable  
6 fittings. And I'm sort of like, why? What do other  
7 countries use in their fire sprinkler systems? They  
8 do have them, so --

9 MR. GLEASON: In other countries around the  
10 world -- it really kind of goes back to a time in  
11 history, and I won't bore you with the history lesson  
12 -- but, basically, cast iron was one of the -- wrought  
13 iron and then cast iron was one of the first foundry  
14 products produced and then threaded. The fire  
15 sprinkler industry has been around for a long time and  
16 during its birth, if you will, the only threaded  
17 fitting available for it was cast iron threaded  
18 fittings. And the sprinkler industry liked it for a  
19 number of reasons. If your sprinkler system froze,  
20 the fitting was easy to break, you could change it  
21 quickly, unlike malleable iron, where you really have  
22 to take your whole system apart.

23 But, historically, in the U.S., it really  
24 became more of a historical thing, that cast iron was  
25 a cheaper product. The fire protection industry is a

1 very competitive, extremely competitive marketplace.  
2 They used cast iron for 100 years now. There was no  
3 reason, because the severity of the systems didn't  
4 require them to use a fitting that could withstand  
5 higher pressure. The cast iron was fine. It fit the  
6 job.

7 In other countries around the world, as they  
8 developed their foundry industry or their fitting  
9 industry, which is relatively new, malleable iron was  
10 on the scene by that time. And they, for the rest --  
11 and all of Japan and all of Asia, South America,  
12 Europe, the predominant threaded fitting used in fire  
13 protection system is malleable. And it's really a  
14 question of when that, let's say, fire protection  
15 industry caught up with that country.

16 Fire protection has been important in this  
17 country for a lot of years. And so, at that the time  
18 of the birth of that industry, cast iron fittings were  
19 available. Let's take Japan now, where they didn't  
20 have fire protection probably until after World War  
21 II. The technology available for threaded fittings,  
22 at that time, was malleable. And so, the rest of the  
23 world moved on to the malleable fittings.

24 VICE CHAIRMAN HILLMAN: I see, interesting.  
25 All right, well, I wanted the history lesson, because

1 it seemed like such a distinction. And, obviously,  
2 here, at the Commission, we've been looking at both  
3 types of fittings recently, so we're learning about  
4 those industries.

5 Let me go and ask you all, if I could, to  
6 expand a little bit more on market conditions since  
7 1999, the period that we're looking at. I know a lot  
8 of cross currents strike me as potentially having  
9 affected the market in this time frame. On the one  
10 hand, construction has been fairly strong, even though  
11 the economy, as a general matter, has turned down in  
12 the last couple of years. What is your perception?  
13 We have numbers of apparent consumption that are just  
14 sort of adding up shipments and imports and I see  
15 something here, but what is your perception of the  
16 markets and their strengths and weaknesses in the time  
17 period that we're looking at? Mr. Martin?

18 COMMISSIONER MILLER: The market during the  
19 POI and, in my time frame, has been under the pressure  
20 from imports and from China, particularly, on a steady  
21 basis. And To Bob Clark's point, we do compete and we  
22 try to compete with our package in the marketplace and  
23 we've taken the prices as low as we can afford to do  
24 that. So, the pressure over the last two to three  
25 years has been very steady.

1                   VICE CHAIRMAN HILLMAN: But, aside from --  
2                   you're talking about pressures you see -- or you  
3                   perceive it on prices. What I'm talking about is  
4                   demand. I mean, is the demand -- our numbers would  
5                   suggest demand has gone down a bit in this period.

6                   MR. GLEASON: Commissioner, if I may?

7                   VICE CHAIRMAN HILLMAN: Yes, Mr. Gleason?

8                   MR. GLEASON: The building industry, in  
9                   terms of single family houses or residential  
10                  construction, has been strong and, quite honestly, has  
11                  kept a number of sectors of our economy going. If you  
12                  look in various parts of the country, in terms of  
13                  commercial, or look at hotels, motels, high-rise,  
14                  along that area, certain parts of the country have  
15                  been getting hammered. San Francisco, alone, has 30  
16                  percent vacant commercial buildings, where fire  
17                  protection systems are installed. I don't think  
18                  you'll see the fire protection industry in San  
19                  Francisco recover for a number of years, until the  
20                  vacancy rate improves in that area. Other parts of  
21                  the country held up fairly good. But, overall, the  
22                  demand in the past year or so has fallen off fairly  
23                  substantially, fairly substantially for that type of  
24                  construction, where a fire sprinkler system would be  
25                  installed.

1                   VICE CHAIRMAN HILLMAN: Okay, the larger  
2 institutional or commercial buildings. Okay. My red  
3 light is on. So, I may have some follow-up questions  
4 to this one. I appreciate all of your answers.

5                   CHAIRMAN OKUN: Commissioner Koplan?

6                   COMMISSIONER KOPLAN: Thank you, Madam  
7 Chairman. I, too, want to thank the witnesses for  
8 their presentation. Commissioner Miller's last  
9 question was actually my first question, so let me  
10 pick up on that, if I might, in this fashion. The  
11 staff report that we have shows -- and this is for the  
12 producers and the purchasers. The staff report that  
13 we have shows that apparent consumption in non-  
14 malleable cast iron pipe fittings fell between 1999  
15 and 2001, and it, also, decreased between the interim  
16 periods. The responses to the question that we asked  
17 in the questionnaires regarding demand were mixed.

18                   I would like the industry witnesses to  
19 describe what has happened to demand for non-malleable  
20 cast iron pipe fittings, and I'm particularly  
21 interested in the level of demand in 2001 and 2002.  
22 And if you could, in responding, I've heard the  
23 comment with regard to the imports, but if you could  
24 talk to me, as well, about newer technologies that  
25 might have come along and what they are; perhaps talk

1 about competition from other products, as well; the  
2 effects of the recession that we had; and the demand  
3 for fire sprinklers, in general. If you could factor  
4 those things into your response. I'm wondering  
5 whether the general slow down of the economy reduced  
6 the demand for this product, for example. So, if I  
7 could hear from the industry witnesses, the producers,  
8 and the purchasers on this.

9 MR. SCHAGRIN: Commissioner Koplan, while  
10 they're thinking of their answers, I'd have to  
11 interjected that there's no question that the data in  
12 the staff report, which shows the largest decline in  
13 consumption in 2001 and 2002, clearly overstates that  
14 declining consumption, because it's in 2001 and 2002,  
15 when the imports increased the most and a number of  
16 the newest importers, major importers, didn't provide  
17 data. So, what you have is during the period when  
18 imports are increasing the most --

19 COMMISSIONER KOPLAN: Mr. Schagrin, I  
20 appreciate what you're doing, but you've made the  
21 argument, both in your direct presentation and the  
22 brief. I would really like to hear from the industry  
23 people. Thank you. And we can come back to you after  
24 I've heard from them.

25 MR. FINKEL: I'd just like to comment that I

1 recently was at a meeting of the American Supply  
2 Association, the association, which represents  
3 plumbing and heating suppliers, and, in general, if  
4 you speak to people from around the country, you'll  
5 find the answer, and that is, in most major markets  
6 for fire sprinkler systems, construction, in general,  
7 has slowed down. Certainly, there are pockets, and  
8 we're one in New York City, where there has been a new  
9 market, if you will, in the last eight or 10 years,  
10 for residential sprinkler systems and high-rise  
11 residential buildings. That's a relatively new market  
12 in our part of the country. But, if I take a look at  
13 commercial construction in the city of New York, that  
14 has certainly come down dramatically in the last  
15 couple of years. And so, I would think that on  
16 balance, that the market for fire suppression systems  
17 has been severely affected by the economy in the last  
18 two years.

19 COMMISSIONER KOPLAN: Thank you, Mr. Finkel.  
20 Mr. Clark?

21 MR. CLARK: I would agree with what Mr.  
22 Finkel is saying. And, in addition, I think what  
23 brings to light more clearly is that as the economy  
24 slows down and there's less available business out  
25 there, the focus becomes on price, which really

1 magnifies the discrepancy between the Chinese fittings  
2 and the domestic fittings. Because people are  
3 scratching for every possible job they can get, price  
4 now becomes an issue and, unfortunately, they get away  
5 from a domestic product.

6 COMMISSIONER KOPLAN: Thank you. Mr. Fish?

7 MR. FISH: Commissioner Koplan, over the  
8 last two years, we definitely have seen the market  
9 fall. There's no doubt about that. Our market, which  
10 is really the non-residential construction market,  
11 usually, we're the last to fall off and, also, the  
12 last to pick up. So, I think even in 2000, the market  
13 was falling and we were just finishing out those  
14 sprinkler systems. So, we see the market as down;  
15 there's no doubt about that.

16 I do not see alternative product as -- you  
17 know, when you talk about alternative product, whether  
18 it's a groove system or a plastic system, I don't see  
19 that as having a big impact on what's happened in our  
20 market. I think those systems have been there for  
21 years and they're pretty well established. But,  
22 overall, it's a down market for us.

23 COMMISSIONER KOPLAN: Thank you. Mr.  
24 Gleason?

25 MR. GLEASON: Commissioner Koplan, and to

1 follow on to what Tom had said, Mr. Fish, with  
2 alternative materials, there has been introductions  
3 over the past few years of polyethylene fire  
4 protection systems. They're called light hazard  
5 systems and they're used primarily in residential, a  
6 market that we never participated in initially. It  
7 was not our marketplace, because we're primarily high-  
8 rise commercial. So, the alternative technologies  
9 didn't affect us negatively, because we never had that  
10 market to begin with.

11 But, overall, with the slowdown and the lack  
12 of major construction, other than hospitals and maybe  
13 some schools, there has been a slowdown in the overall  
14 fire protection marketplace, generally speaking, for  
15 the last couple of years.

16 COMMISSIONER KOPLAN: Thank you. Let me  
17 just say, and this is a follow up to where I was  
18 heading with this, demand has been decreasing in 2001  
19 and 2002, but I'm looking at the price data collected  
20 by the Commission, and it shows that prices in most  
21 cases of the domestic products were increasing over  
22 the period of investigation. What I'm struggling with  
23 is, if demand is declining, how were you, the  
24 producers, able to increase your prices?

25 MR. GLEASON: Commissioner, if I may?

1                   COMMISSIONER KOPLAN: Absolutely.

2                   MR. GLEASON: When you look at a situation  
3 and you say, can you drop your price 30 percent, it's  
4 impossible. To give you one example, it's not during  
5 the period of the investigation, our bill for our  
6 insurance for our workers increased 32 percent. We  
7 just got it, a 32 percent increase in our insurances.  
8 During the same period, we, also, had major medical  
9 insurance increases, workman's compensation increases.

10                   You look at -- the numbers guys -- I'm not a  
11 number guy, the number guy comes to you and says, we  
12 need a price increase, because we have a four percent  
13 increase in labor, we have a 30 percent increase in  
14 insurances, and you have all of these factors on the  
15 plus side. And you say, well, I can't have one. And  
16 he says, you have to. I said, I can't; it's  
17 impossible to have one. So, what you do is you hold  
18 out as long as you can, to maintain at least where you  
19 are. But then when the pressure becomes so great,  
20 you've got to raise it a little bit, to at least try  
21 and get to even, as to where you were.

22                   Because, this is not a normal I'm against  
23 Anvil and Ward and I've got 10 other American  
24 producers that are all on the same playing field, in  
25 terms of their cost. I'm on a playing field that's

1 here, versus a competitor that's here, and there isn't  
2 a way to get there. And so, you're really in a bind.  
3 You cannot go back; it's tough to go forward; and you  
4 try and get as much at least to stay even.

5 I mean, some of the things that we did, it  
6 cost us 200 jobs in Blossburg. We used to be 1,000  
7 employees. We're down to 800. It cost us our  
8 efficiencies in the foundry. We used to run six line  
9 shifts, two, three-shift operations. I'm running a  
10 three and a one. I have all of that cost to run one  
11 line shift of production. That's still in there.  
12 But, I'm very inefficient, because all of those fixed  
13 costs go to much less production. Well, enough from  
14 me, I'll let some of my colleagues comment further.

15 COMMISSIONER KOPLAN: Well, let me just ask  
16 this and then I'd like to hear from you, as well, Mr  
17 Fish. In his opening statement, Mr. Schagrín said  
18 that there's evidence of price suppression and price  
19 depression, including at the end of the period of  
20 investigation. But when I look at the price data, I  
21 don't see price depression. And I'm wondering whether  
22 you have experienced that during the course of our  
23 period of investigation. I note that in our  
24 preliminary determination, we specifically said that  
25 we did not find price depression.

1 MR. GLEASON: Commissioner, just a follow-  
2 up.

3 COMMISSIONER KOPLAN: Yes.

4 MR. GLEASON: Depression, in the sense that  
5 had I been able to what I would consider, as a  
6 producer, fairly raise my prices to match my cost  
7 increases, we haven't done that.

8 COMMISSIONER KOPLAN: Well, wouldn't that be  
9 price suppression? I'm asking about price depression.

10 MR. GLEASON: I'm hung up on words here.

11 COMMISSIONER KOPLAN: Right, so am I.

12 MR. GLEASON: I couldn't get where I needed  
13 to go.

14 COMMISSIONER KOPLAN: No, I understand that.

15 MR. GLEASON: If that's suppression.

16 COMMISSIONER KOPLAN: I'm just looking at  
17 what the requirements are, the factors we need to look  
18 at.

19 MR. GLEASON: Sure.

20 COMMISSIONER KOPLAN: And those are two  
21 separate things that we need to be looking at. Mr.  
22 Fish?

23 MR. FISH: To the best of my recollection, I  
24 do believe there was a price increase in the 2000-2001  
25 time frame --

1 COMMISSIONER KOPLAN: Right.

2 MR. FISH: -- but not in the 2001-2002 time  
3 frame. It was also during this whole period that we,  
4 as Anvil, decided to consolidate foundries, because  
5 we, basically, couldn't afford to run two. We spent  
6 the \$20 million, and it's capital, it's capital cost  
7 that gets amortized or depreciated into cost of goods  
8 sold over a period of time. And as you do that, as a  
9 free enterprise company for profit, and you're under  
10 pressure -- we're under pressure from our board of  
11 directors, they say, well, you just spent \$20 million,  
12 I mean, where's the return; you're not making -- you  
13 should make money more now; you should do better. And  
14 so, I think that drives the pricing for us. And,  
15 again, after we did that in 2001, we still didn't  
16 think that the market could accept, nor could we  
17 afford to raise prices, at that point in time.

18 So, I mean, the reality is that we have not  
19 been able to pass on what would be our normal  
20 increases in this market. And it's a combination of a  
21 recession, plus the Chinese prices being way down  
22 here. Every time we do that, we face additional  
23 market share erosion.

24 COMMISSIONER KOPLAN: Thank you, sir.

25 MR. STRAUSS: Commissioner Koplan, I'd like

1 to just add one thing.

2 COMMISSIONER KOPLAN: Could you identify --  
3 would the Chair indulge a response?

4 CHAIRMAN OKUN: Sure.

5 COMMISSIONER KOPLAN: If you could identify  
6 yourself for the record?

7 MR. STRAUSS: I'm sorry, Bill Strauss with  
8 Anvil. In response to your question about prices, one  
9 of the things that we've tried to do and tried to  
10 maintain our prices at the levels that they are is by  
11 adding value to our customers in other ways. So, we  
12 have, for example, worked very hard to increase our  
13 efficiencies in our warehousing and some of the other  
14 value added services we offer our customers. So, I  
15 think that that has allowed us to maintain some of our  
16 pricing.

17 COMMISSIONER KOPLAN: Thank you and I thank  
18 you, Madam Chairman.

19 CHAIRMAN OKUN: Thank you. Mr. Fish, maybe  
20 I'll go back to a few other questions I had regarding  
21 going from -- closing down the Statesboro, Georgia  
22 plant in 2001. And you talked about it in your  
23 testimony and you, also, talked about in your brief.  
24 But, just a couple of things that I want to make sure  
25 that I understand, in terms of what the costs were and

1       how it affected employment and other things. The \$20  
2       million figure that you've cited today, you said that  
3       was a one-time cost, but it's amortized. It's still  
4       showing up in your costs now?

5               MR. FISH: The portion of that cost, and I  
6       don't have the breakout off the top of my head, but  
7       there was capital costs. We had to install additional  
8       diesematic machine, so that we could produce the  
9       product. We had to add additional melt capacity. We  
10      had to add additional environmental ability to clean  
11      the air. So, all of those costs -- you know, you  
12      spend, and I'm going to use an approximate, let's say,  
13      \$10 or \$12 million of that was for those items. Those  
14      will get depreciated every year. You'll have to  
15      recognize, let's say, 10 percent of those every year.  
16      So, that goes into your costs every year. So, you  
17      spend the capital up front, you put it on the balance  
18      sheet, and then you have to push it into P&L, in  
19      theory, as you use the equipment and machine, as it  
20      becomes utilized.

21              CHAIRMAN OKUN: Okay. And during that time,  
22      and just so I understand what was going on during the  
23      POI, for you, Mr. Clark, when -- did you buy from the  
24      Statesboro, Georgia plant before? I mean, was there  
25      any disruption in your supply from Anvil during this

1 time?

2 MR. CLARK: No, there wasn't.

3 CHAIRMAN OKUN: Okay. And that was because  
4 they were able to use inventories?

5 MR. CLARK: Yes, they built up adequate  
6 inventories to span the transfer.

7 MR. FISH: As part of our whole plan, we did  
8 build additional inventories to prepare for the move.  
9 Obviously, the worst thing that could happen to us is  
10 to make this move, not have it go as smoothly as we'd  
11 like it to, and then be sitting there and saying,  
12 well, we don't have any product. So, we didn't want  
13 to do that. So, we did build inventories.

14 CHAIRMAN OKUN: Okay. And just so that I  
15 understand that timing, would that have been prior to  
16 -- what period would you have built up those  
17 inventories?

18 MR. FISH: Those inventories would have been  
19 built up prior to April of 2001, probably in December  
20 2000 to April 2001.

21 CHAIRMAN OKUN: Okay. And then just in  
22 terms of it, and you may have touched on it, I'm just  
23 trying to make sure that I understand when we look at  
24 our record how things are affected, the employment  
25 impact of that, in terms of the numbers you did employ

1 and now employ?

2 MR. FISH: Well, as I said, if you go back  
3 to 1996, there were 1,800, and now there are 900. The  
4 bottom line is we thought, when it got to the point  
5 where we were making the change, we thought that by  
6 consolidating operations, we would add about 200  
7 people, ballpark, to Columbia, and I think the number  
8 of people coming out of Statesboro were in the 350  
9 range. So, we thought we would be more cost  
10 effective, because we wouldn't need as many people, by  
11 consolidating these foundries. In reality, what's  
12 happened was, we had 1,000 people in Columbia before;  
13 we thought we were going to go to 1,200; now, we have  
14 900.

15 CHAIRMAN OKUN: Okay. So the Statesboro  
16 employees never went to Columbia?

17 MR. FISH: We offered all of our Statesboro  
18 employees jobs, if they wanted to relocate. I believe  
19 we have two or three people up there. No workers, but  
20 we have one managing person; yes, one.

21 CHAIRMAN OKUN: Okay. And just in terms of  
22 -- and, again, you touched on it, but so that I  
23 understand, in terms of for the company, by closing  
24 down that plant, did you lower your overall  
25 environmental compliance costs, or did you still have

1 some outstanding even in shutting that down? Because,  
2 I heard you mention that. I'm just trying to  
3 understand kind of what those costs are after the  
4 closure.

5 MR. FISH: Well, actually, what we did was  
6 we -- and, again, maybe I have confused you, but we,  
7 actually, have sold/leased that foundry to someone  
8 else, who wanted to stay in the automotive casting  
9 business. We were required to pay certain severances  
10 of certain people down there. And the major cost for  
11 us was to relocate all the patterns and fixtures,  
12 retest them, get them operational on our Columbia  
13 machines. Did I miss anything?

14 CHAIRMAN OKUN: If you could use your  
15 microphone, Mr. Kim, if there's anything you want to  
16 add?

17 MR. KIM: As Mr. Fish said, since we leased  
18 the plant, and the environmental costs, in any  
19 environmental situation, is actually cradle to grave.  
20 So, we do have continuous environmental costs in that  
21 Statesboro, Georgia plant, as long as we own it.

22 CHAIRMAN OKUN: Okay. Again, I'm just  
23 trying to understand, again, the costs that are  
24 showing up and where they show up and how that relates  
25 to the restructuring during the period of

1 investigation, to make sure that I understand. So, if  
2 there's anything that you think would be helpful to  
3 clear up in post-hearing, in terms of the details, I  
4 think that would be helpful, as well.

5           And I think, actually, Mr. Strauss, I think  
6 I'll go back to you on somewhat of a financial  
7 question. And you've talked about it a great deal,  
8 including in the response to Commissioner Miller about  
9 this question that's been identified, is this about  
10 losing volume or is it about cost, and how did that  
11 affect your bottom line. And one of the things that  
12 is puzzling in our pre-hearing brief is a variance  
13 analysis. And so, I'm going to go to you, Mr.  
14 Strauss, since you're the financial guy, to see if  
15 there's anything you can comment on publicly.

16           What the variance analysis said was that the  
17 domestic industry's operating income was unfavorably  
18 affected, primarily by changes to net costs, and then  
19 to a much lesser extent to volume. But when I heard  
20 the responses that you were giving earlier, I'm not  
21 sure that that was the impression I had. And I want  
22 to know if you think what the staff report says about  
23 the variance analysis, again, get them to spread out  
24 over other company and all that and it's proprietary,  
25 is there anything you can say, in terms of what I'm

1 hearing about the volume loss and the impact that had  
2 on your operating income, and what the variance  
3 analysis tells us about net costs to the company?

4 MR. STRAUSS: I'm not exactly sure what your  
5 question is. Our unit costs increased as a direct  
6 cost increasing; but, also, because we were spreading  
7 overhead over fewer units of production. I'm not sure  
8 I'm answering your question.

9 CHAIRMAN OKUN: Well, you are. I guess,  
10 it's just going to kind of -- I mean, you've heard the  
11 question several times by different Commissioners.  
12 I'm trying to understanding what is really driving the  
13 numbers in this case. And Vice Chairman Hillman asked  
14 that of Mr. Schagrin, this is a legal matter, and  
15 we're trying to evaluate the factor and trying to  
16 understand where do we make the connection with the  
17 Chinese imports versus costs unrelated that may have  
18 impacted your bottom line, that were not the Chinese  
19 imports. In other words, that's what I'm trying to  
20 understand when I look at that. In other words, if it  
21 were all about sales volume and even though we don't  
22 have a lot of sales, but if I were to say, okay, you  
23 can see the volume went down and Chinese volume went  
24 up, those are Chinese imports.

25 I'm trying to understand the question about,

1 and Commissioner Miller touched on it, which is if it  
2 just because you've lost volume, therefore, you're  
3 having -- you've got to spread out your operating  
4 costs and they go up, I'm just trying to see if that  
5 comports with what the record says to us. And, again,  
6 I know it's hard with most of the data confidential,  
7 but I'm just trying to make sure I understand what  
8 went on in the industry.

9 MR. STRAUSS: I've never specifically tried  
10 to break those into two components that you're asking  
11 about, but I can certainly try to do that and we can  
12 submit it in our post-hearing brief, if that's  
13 appropriate.

14 CHAIRMAN OKUN: Yes, that would be helpful.  
15 And, again, it goes to a number of the questions that  
16 were raised and I think that would help.

17 And, then, Mr. Gleason, I'm just curious for  
18 this company, does it matter when Anvil consolidated  
19 in Columbia for you? I mean, now, all of sudden, we  
20 have everybody in Pennsylvania. What does it mean for  
21 you?

22 MR. GLEASON: Yes. I didn't get Bob Clark's  
23 business. I was hoping for them to stub their toe.

24 CHAIRMAN OKUN: Okay.

25 MR. GLEASON: No, it was a pretty seamless

1 transition. Unfortunately for my company, Tom and his  
2 people did a pretty good job. I really was hoping  
3 they would stub their toe a little bit, that I could  
4 pick up some of his business; but, it did not happen.

5 CHAIRMAN OKUN: Okay. And then, Mr. Clark,  
6 one other thing that I wanted to ask you. I know you  
7 said you had distribution facilities, including, you  
8 talked about the California area. In terms of -- this  
9 is just probably for transportation costs are low  
10 enough, how do you get everything over to California?  
11 You're now taking everything from Pennsylvania to  
12 California to sell? Is that --

13 MR. CLARK: Well, something that Mr. Fish  
14 said earlier, they have five large distribution  
15 facilities of their own. I believe the one on the  
16 west coast is in Reno and so that gives them easy  
17 access to the west coast.

18 CHAIRMAN OKUN: Okay. So, Mr. Fish, you're  
19 servicing the west coast from --

20 MR. FISH: We have five distribution  
21 centers. We have about 14 plants. We ship all of our  
22 products into these distribution centers. And from  
23 Reno, we will service the west cost. From Chicago --  
24 we have one in Chicago, one in Atlanta, one in  
25 Philadelphia, and one in Dallas.

1                   CHAIRMAN OKUN: Okay. Mr. Gleason, are you  
2 shipping over there?

3                   MR. GLEASON: Yes. For our wholesalers on  
4 the west coast, they buy in truckload quantity. So, I  
5 mean, it's the most economically form, in freight-  
6 wise, to ship from east coast to west coast. So, we  
7 sell in full truckloads to the west coast.

8                   CHAIRMAN OKUN: Okay. I appreciate those  
9 answers. Vice Chairman Hillman?

10                  VICE CHAIRMAN HILLMAN: Thank you, very  
11 much. First, Mr. Schagrin, on this issue of cost, in  
12 my previous round of questions, I was trying to draw  
13 this distinction between what we were seeing in raw  
14 material versus labor costs, as opposed to other  
15 factory costs, and what was driving the other factory  
16 up, as opposed to these other two. I think the  
17 responses to all of these questions and, in  
18 particular, the response to Chairman Okun's question  
19 on this issue of the shutdown and the move, addressed  
20 that question. So, that was the only point I was  
21 going to make, that it wasn't overall costs, as much  
22 as -- you know, within the cost of goods sold, I was  
23 trying to understand the different trends for raw  
24 materials, as opposed to other factory costs, which is  
25 where we do see this big increase. But, I think the

1 answers have addressed that question.

2 If I could turn back to you, Mr. Finkel.  
3 Again, I'm just trying to understand this issue of  
4 this union versus non-union market. Do you have a  
5 sense of what share of the U.S. market is union, as  
6 opposed to non-union?

7 MR. FINKEL: No, I wouldn't know, as far as  
8 the U.S. is concerned. I would have --

9 VICE CHAIRMAN HILLMAN: Okay, in New York?

10 MR. FINKEL: Yes. I would have a much  
11 better feeling about the New York metropolitan area.

12 VICE CHAIRMAN HILLMAN: And what would you  
13 say the percentage is?

14 MR. FINKEL: And I would say that about two-  
15 thirds of the market would be union market.

16 VICE CHAIRMAN HILLMAN: Okay. Mr. Clark, do  
17 you have the same sense that the union markets tend to  
18 prefer U.S. product, as opposed to the non-union  
19 market?

20 MR. CLARK: Yes.

21 VICE CHAIRMAN HILLMAN: And do you have any  
22 sense of, again, the overall size of the union market?

23 MR. CLARK: I couldn't respond on the  
24 national basis. I can give you some examples from  
25 some of our locations. Saint Louis, in particular, is

1 probably 80 percent union.

2 VICE CHAIRMAN HILLMAN: Okay.

3 MR. CLARK: You go to south, into Texas, and  
4 probably the non-union is more prevalent in Texas.

5 VICE CHAIRMAN HILLMAN: And would you be  
6 aware, are any imports sold into the union market?

7 MR. CLARK: I would say, yes.

8 VICE CHAIRMAN HILLMAN: Okay.

9 MR. CLARK: I couldn't give you a figure.

10 VICE CHAIRMAN HILLMAN: Okay. Mr. Finkel,  
11 your sense before, it struck me your answer was, no;  
12 but, I'm curious, do you know, are any imports sold  
13 into the union market?

14 MR. FINKEL: I would have to think that some  
15 of our competition, who are selling union contractors,  
16 are, in fact, selling some import material; but, I  
17 really wouldn't have a number on that.

18 VICE CHAIRMAN HILLMAN: Okay. Mr. Martin?

19 MR. MARTIN: Yes, Mr. Martin. I believe  
20 it's still a matter of choice. The unions we work  
21 coast-to-coast has already been determined. The  
22 Midwest is a very strong union. The south is, by and  
23 large, non-union contractors. And it's still a matter  
24 of choice whether it's a national company or a local  
25 unionized company. So, yes, there is import, to some

1 degree, in some of the union contractors.

2 VICE CHAIRMAN HILLMAN: Okay. Mr. Gleason?

3 MR. GLEASON: Just one quick comment. The  
4 UAC, Union Affiliated Contractors, headquartered in  
5 Washington, D.C., I had an opportunity to see their  
6 training program that they offer their contractors.  
7 It's a wonderful, wonderful Internet-based, top-of-  
8 the-line thing. But, the thing that came out with  
9 discussion with George Bush and a number of other  
10 people over there, is that they, themselves, recognize  
11 the fact that they've got to be competitive and that  
12 the trend of buy America or they want to buy only  
13 American-made product is disappearing quickly among  
14 their membership.

15 So, I think as we go forward, you're going  
16 to see less and less of that going forward, because  
17 they have to compete with non-union. The jobs are  
18 scarce. They've got to be competitive. How do you be  
19 competitive? You lower your cost. How do you lower  
20 your cost? You buy cheaper products. So --

21 VICE CHAIRMAN HILLMAN: Okay. Mr. Clark,  
22 you mentioned that you have purchased Chinese product.  
23 Have you purchased Chinese ductile product or only the  
24 cast iron non-malleable product?

25 MR. CLARK: Primarily, the cast iron; a very

1 small amount of ductile on the west coast.

2 VICE CHAIRMAN HILLMAN: Okay. Help me  
3 understand the competition between the ductile product  
4 and the non-malleable product. From the information  
5 that we would have in our record, it would indicate  
6 that the ductile product is fairly considerably more  
7 expensive than the cast iron product. Would that be  
8 your experience?

9 MR. CLARK: No, ma'am. I think it's  
10 actually cheaper.

11 VICE CHAIRMAN HILLMAN: The ductile product  
12 is cheaper?

13 MR. CLARK: Correct.

14 VICE CHAIRMAN HILLMAN: Okay.

15 MR. SCHAGRIN: Vice Chairman Hillman, I  
16 wouldn't. I think when you look at the record again  
17 carefully, I did not read the data on the record the  
18 same way you just characterized.

19 VICE CHAIRMAN HILLMAN: Okay.

20 MR. SCHAGRIN: I think it shows a lot of  
21 similarity, in fact, between the ductile and cast  
22 iron. Obviously, it's confidential.

23 VICE CHAIRMAN HILLMAN: Mr. Clark, help me  
24 understand, do people specify that they want one or  
25 the other or are they literally just used

1 interchangeably?

2 MR. CLARK: They make that choice.

3 VICE CHAIRMAN HILLMAN: Okay. So, people  
4 would specify they want ductile or they want --

5 MR. CLARK: Yes, ma'am.

6 VICE CHAIRMAN HILLMAN: But, your sense has  
7 been -- are they used interchangeably?

8 MR. CLARK: They perform the same functions.  
9 It's probably highly unlikely that you would mix those  
10 two types of fittings in a given sprinkler system.

11 VICE CHAIRMAN HILLMAN: Okay. So, a system  
12 will have only one type?

13 MR. CLARK: Generally speaking, yes, ma'am.

14 VICE CHAIRMAN HILLMAN: Mr. Gleason, if I  
15 can come back to you on this issue of prices. I was  
16 just sort of struck by some of the comments that you  
17 gave in response to Commissioner Koplan. I'm just  
18 trying to get a better sense of how you go about  
19 setting prices. I mean, it struck me from your  
20 answers, that you're doing it more as a derivation of  
21 your cost. I mean, how much does it cost you to  
22 produce this product and, ideally, you'd like x amount  
23 of markup, and, therefore, ideally, you'd like x  
24 price, as opposed to market competition, sort of  
25 looking at what everybody else is selling for or

1 what's the prevailing price out there in the  
2 marketplace or what your customers are telling you  
3 they want from a price. I'm trying to get a sense of  
4 which is more important, when you determine the price  
5 that you're going to -- your list prices.

6 MR. GLEASON: Sure. We're going to go back  
7 in history a little bit, too, on pricing, because our  
8 industry has always sold from a price list. The  
9 easiest way for a manufacturer to, let's say, have a  
10 price increase is just to say, all right, our price  
11 list went up five percent. We go up five percent  
12 across the board. So, the pricing structure that's  
13 been in the U.S., the list price and discount  
14 structure, has been in this country for 40 or 50  
15 years. And, really, the price list that you see today  
16 roots started 50, 60, 70 years ago.

17 We don't take -- as a company, we know what  
18 our individual cost of producing individual products  
19 are. We have to, in order to look at what we need to  
20 do to improve our productivity. You throw capital at  
21 the stuff that costs you the most, so you can bring  
22 the cost down.

23 But, generally speaking, that's not  
24 reflected in the price list. Generally, in a price  
25 list or a price increase, you say, all right, we're

1 going to go up three percent, four percent, five  
2 percent across the whole spectrum, and you hope that  
3 that captures enough of your costs that you need to  
4 capture on a price increase.

5 The suppression that we have had is the fact  
6 that we had just come from a battle, if you will, with  
7 Flag and Stockholm, U-Brand and Koons, and these  
8 other, in the domestic sense, and that battle, in and  
9 of itself, kept pricing very low for a very long  
10 period of time, in normal competition. The coming of  
11 the Chinese, also, now is suppressing the price. But,  
12 we couldn't raise our price enough. I mean, you had  
13 talked -- I don't talk to Bob Clark, because he's  
14 Tom's customer, but I'd like to talk to Bob Clark, but  
15 the issue is that the marketplace was saying, you  
16 know, if you go up much, my customers are really going  
17 to take a harder look at the Chinese product. So, you  
18 try and hold them down as far as you can, but then you  
19 really need occasionally to boost it, something,  
20 because we can't go there, down to that price level.  
21 It's ridiculously low.

22 VICE CHAIRMAN HILLMAN: Okay.

23 MR. GLEASON: I don't know whether I  
24 answered your question, Commissioner.

25 VICE CHAIRMAN HILLMAN: Mr. Fish, would you

1 have a sense, are your prices set more by looking at  
2 your cost of production, or more by trying to assess  
3 what's going on out there, in terms of marketplace  
4 competition?

5 MR. FISH: I think our price is -- we look  
6 at both, but I think it's really what's happening out  
7 there in the marketplace. And we're looking at what's  
8 in the marketplace and we're looking at -- we look at  
9 price, as Tom Gleason explained, we have a very  
10 complicated system. But, basically, you have a price.  
11 You, also, have a rebate. You, also, have freight  
12 terms and you, also, have cash discounts. And,  
13 really, your net price, and I've been in the business  
14 for 21 years, sometimes, I can't figure out what the  
15 net, net price is, because we have volume rebates and  
16 we have cash discounts and we have your net price,  
17 depending on what size of the load that you take.

18 But, ultimately, where you go is, you're  
19 looking at the competition, including the Matco  
20 Norcker, you know, what is their freight terms and what  
21 are they doing. We have a freight policy that's 2,500  
22 pounds. The freight policy for some of our  
23 competitors, 1,000 pounds; some of our other  
24 competitors, 500 pounds. And freight could be a big  
25 expense. And that translates down to net price.

1           So, there's a bunch of factors that affect  
2 price, but we look at it and we say, well, okay,  
3 what's happening in the marketplace, what's happening  
4 with other products in the marketplace. We sell and  
5 manufacture many other products besides cast iron  
6 fittings. We sell pipe hangars and forged steel  
7 fittings and steel nipples and groove product, that  
8 you see, that orange product sitting right there. So,  
9 we have a feel for what's happening with those  
10 products in the marketplace, too, and what's happening  
11 in a general manufacturing environment, and what  
12 companies, such as ourselves, manufacturing company  
13 need to do to survive and thrive in that marketplace,  
14 which means, you have to maintain your profitability,  
15 so you can invest the \$10 million a year in new  
16 capital equipment, so that you can keep your cost down  
17 and you can keep your people employed.

18           So, we look at all of those factors. But,  
19 the bottom line is, if the market is saying no, we're  
20 not going there, you can announce a price increase all  
21 you want, you won't get it. You may have -- the list  
22 may go up, but then your discount changes. So, even  
23 when we look at our numbers over the last couple of  
24 years, we've had -- I think the last price increase we  
25 had was a five percent increase. We didn't realize

1 five percent. We'd be lucky if we got two, one-and-a-  
2 half.

3 VICE CHAIRMAN HILLMAN: Okay. I appreciate  
4 those answers. Thank you.

5 CHAIRMAN OKUN: Commissioner Miller?

6 COMMISSIONER MILLER: Thank you, Madam  
7 Chairman. I guess I might as well just sort of -- I  
8 have a couple of other things, but to finish on this  
9 point, because we keep coming back to it, and I guess  
10 that's because, in all honesty, I don't know if you  
11 guys are just particularly good negotiators, but we're  
12 struggling, because, frankly, in the context of the  
13 market conditions here, recession, declining demand,  
14 right, and increase supply in the form of imports, we  
15 don't usually see increased prices. So, that's why  
16 we're struggling with this. I can understand from a  
17 domestic producer standpoint why you want it, because  
18 of your increasing cost. So, I don't question that.

19 But, everything, as you've just said, Mr.  
20 Fish, you have to react to what the market is doing.  
21 As Mr. Schagrin knows, because he helps us with so  
22 many of these cases, usually in these market  
23 conditions, we see declining prices. No matter how  
24 much you may want to increase your prices, we see  
25 declining prices. So, we keep coming back to it, but

1 that's why, because this market seems to defy the laws  
2 of what we normally see. And so, I'm just trying to  
3 understand why.

4 MR. SCHAGRIN: Commissioner Miller, since  
5 I'm good at trying to help the Commission through  
6 this, on a normal basis --

7 COMMISSIONER MILLER: And you hear me  
8 struggling.

9 MR. SCHAGRIN: -- I think that what you see  
10 in this market, which is different than, let's say,  
11 the whole plethora of steel cases, steel comes in and  
12 it's 10 or 15 percent lower than domestic; the  
13 domestic guys got a high fixed cost; they lower their  
14 prices 10 percent; and, then, maybe, the foreign goes  
15 down another 10, and volumes and market shares change.  
16 Here, we're talking about imports that are 30 to 40  
17 percent less. We are talking about an industry that  
18 really doesn't have the usual Hobson's choice. Do I  
19 lower prices and lower my profitability by lowering  
20 prices, or I keep my prices here and lose volume and  
21 see my costs go up.

22 If you look at the profit margins of this  
23 industry, lowering prices will result in immediately  
24 substantial losses and losses will lead to closures.  
25 So, I think, as they've tried to explain, they don't

1 really have the option. I mean, you can ask the  
2 customer, ask Mr. Clark, if they lower their prices 15  
3 or 20 percent, would the folks, who are buying Chinese  
4 now, buy domestic instead. I think the answer is, no,  
5 because there would still be a 15 percent difference  
6 in price and they're not going to buy the domestic at  
7 a 15 percent premium.

8 So, in this particular case, these  
9 conditions of competition between the domestic  
10 industry and the Chinese imports, the domestic  
11 industry doesn't have the option of lowering price to  
12 retain volume. What is happening is they are losing  
13 the volume and that's increasing their cost. They're  
14 facing other cost increases. And they're unable to  
15 increase their prices, as their cost are increasing,  
16 so they're suffering that cost price squeeze.

17 But, they're on the edge. The information  
18 is confidential, but I think it's clear from the  
19 confidential information, just characterizing it, and,  
20 of course, my client's information, that this industry  
21 is now at breakeven. And you don't have a lot of  
22 places to go from breakeven. It's all down from here.

23 COMMISSIONER MILLER: Well, I can understand  
24 why perhaps the producers feel like they don't have a  
25 choice. They don't have the choice of another. But,

1 I don't totally understand why the customer doesn't  
2 have more of another choice. In other words, perhaps,  
3 it's why hasn't there been an even greater increase in  
4 imports from China? I mean, the increase in imports  
5 from Chinese is not as great or as large as the  
6 decline in volume we're talking about here.

7 So, let me go to Mr. Clark and Mr. Finkel,  
8 because maybe they can or maybe they can't help me, in  
9 terms of why don't more distributors go to the imports  
10 from China, given the certain -- you see rising prices  
11 from your domestic suppliers.

12 MR. FINKEL: Let's go to a hypothetical  
13 situation and let's say I sell an item for a dollar  
14 and I make 10 percent on that dollar. And, in an  
15 attempt to cover my costs, as a distributor, if now I  
16 can buy that item for 60 cents and could make 10  
17 percent on that 60 cents, I would make six cents and,  
18 therefore, I would lose a tremendous spread in my  
19 profitability. So, how do I cover my costs? So,  
20 certainly, as a distributor, it behooves me to sell  
21 the domestic product, in that case, because my costs  
22 are predicated on my current overhead. And, in fact,  
23 if I had a diminution of my profit, just on a dollar  
24 basis, not a percentage basis, but on a dollar basis,  
25 that would significantly impact my business.

1                   COMMISSIONER MILLER: Okay. Mr. Clark, do  
2 you want to add anything?

3                   MR. CLARK: I share Mr. Finkel's answer.  
4 Also, you have to make up an awful lot of volume when  
5 you sell cheaper and I don't think the volume is out  
6 there. So, am I going to, you know, along with what  
7 Mr. Finkel is saying, is I'm going to make six cents  
8 on an item or I'm going to make 10 cents on an item.  
9 How many more of those items do I have to sell to make  
10 that same 10 cents? It's almost two to one.

11                  MR. SCHAGRIN: Commissioner Miller?

12                  COMMISSIONER MILLER: Yes.

13                  MR. SCHAGRIN: I'd also point out,  
14 obviously, Frank and Bob were kind enough to come  
15 here. They're kind of the true blue distributors.

16                  COMMISSIONER MILLER: Right.

17                  MR. SCHAGRIN: I think if we had a realistic  
18 cross section of the distributors of these products,  
19 we would have a lot of folks, who are buying a lot of  
20 Chinese. We will give you, in our post-hearing brief,  
21 the data from the HDSs for just the non-malleable. It  
22 is much higher than what the staff has from importers.  
23 What we really think is that, in this case, what's on  
24 the record now is an increase over the POI, in terms  
25 of Chinese market share of about half. We think

1 realistically, the increase has probably been a  
2 doubling of market share over the POI.

3 We do have this problem with ductile. We  
4 can't give you the ductile numbers, but ductile  
5 subject fittings come in the categories with lots of  
6 other ductile fittings. But the non-malleable  
7 categories of fittings, because we do have threaded  
8 and not threaded, non-malleable fittings categories,  
9 those are better. And we do think that the imports  
10 are being understated.

11 I think Mr. Clark testified at the  
12 conference and maybe again today, that from his  
13 knowledge, over the past 12, 18 months, there are more  
14 importers selling the Chinese cast iron and ductile  
15 fittings than there used to be. There's more people  
16 offering the product than they used to be. Those new  
17 people, who started offering the product in 2001-2002,  
18 not been responding to the Commission's  
19 questionnaires. They are the ones that probably  
20 account for the largest share of the increase.

21 The Commission and we struggle when people  
22 don't participate in the investigations. We hope that  
23 that struggling never is to the adversity of the  
24 domestic industry, when they fully participate. Any  
25 lack of participation by people, who have imported

1 from China -- and I think the staff gets information  
2 from Customs about the names of folks, who imports. I  
3 don't know whether or not the staff can fill in from  
4 Customs any information about quantity of imports by  
5 importers over a time period, for importers, who have  
6 not responded. I don't know about the relationship of  
7 sharing otherwise confidential Custom's information  
8 with the Commission.

9 But, we have some substantial data gaps here  
10 on the import side. That, we are quite confident of.

11 COMMISSIONER MILLER: Okay. Well, I would  
12 just invite you, to the extent you can identify, you  
13 know, meaning not just names, but specifics. We  
14 haven't been able to locate some of the importers that  
15 you've named. We haven't been able to find them. So,  
16 if you could find them for us, please -- you know,  
17 we'd appreciate it.

18 MR. SCHAGRIN: We'll do everything that we  
19 can, in our post-hearing brief.

20 COMMISSIONER MILLER: So, the yellow light  
21 is on. I have a couple of things just quickly I want  
22 to do. One is following up on a question and an  
23 answer I heard to the Chairman, regarding the  
24 Statesboro facility and what's going on there. It  
25 does not produce non-malleable fittings, at this

1 point; isn't that correct?

2 MR. FISH: Today, the Statesboro facility  
3 does not produce non-malleable pipe fittings; that is  
4 correct.

5 COMMISSIONER MILLER: Okay. So, any  
6 continuing environmental costs that may be associated  
7 with that would not be attributable to --

8 MR. FISH: That is true, it would not be  
9 attributed to non-malleable fittings.

10 COMMISSIONER MILLER: Okay.

11 MR. FISH: I think what Bob was --

12 COMMISSIONER MILLER: To our cost  
13 structures. It's a company cost?

14 MR. FISH: Yes.

15 COMMISSIONER MILLER: Yes. We would see it  
16 in our other case, maybe.

17 MR. FISH: No, you will not see it. They're  
18 totally separate.

19 COMMISSIONER MILLER: Okay.

20 MR. FISH: You will not see it.

21 COMMISSIONER MILLER: Okay. And this, in  
22 many ways, Mr. Schagrin, frankly, this question does  
23 go -- may I?

24 CHAIRMAN OKUN: Yes, please.

25 COMMISSIONER MILLER: It goes to our debate

1 here and our struggle with understanding prices. The  
2 petition and the questionnaires have not provided us  
3 any specifics on loss sales or revenue. Would you  
4 like to tell us why?

5 MR. SCHAGRIN: I would love to.

6 COMMISSIONER MILLER: Would my colleagues  
7 like to hear the answer?

8 MR. SCHAGRIN: If the Commissioner would so  
9 allow me, in someone else's time or however that works  
10 out, or in --

11 CHAIRMAN OKUN: It's nobody's time.

12 MR. SCHAGRIN: -- or in penalty time here.

13 COMMISSIONER KOPLAN: I'll stipulate to  
14 that.

15 MR. SCHAGRIN: I can't -- I've got to make  
16 sure both of my clients have to look to the side, but  
17 I brought with me Exhibit 30, to both the petition and  
18 -- just because we do amendments, we keep things the  
19 same way -- and Exhibit 30 to our amended petition,  
20 and for both companies, approximately eight to 10  
21 customers were listed as loss sales; not loss  
22 revenues, just loss sales.

23 Now, the way these loss sales were put  
24 together, because, of course, we go through this with  
25 every petitioner before a case, we give them the grid

1 that the Commission puts in every questionnaire. And  
2 given the nature, which you have all experienced, of  
3 the price competition here, that grid didn't work.  
4 The idea of someone finding out from Clark, what was  
5 the Chinese offering price, versus our price, and so  
6 what was the exact amount that their price was below  
7 ours, and so how much volume did you buy from China  
8 and how much did we lose, it didn't work for this  
9 industry.

10 So, instead, what these producers did was  
11 they listed some major customers that they knew had  
12 bought Chinese product during the POI and said, we  
13 have been selling -- and because it was in the  
14 petition phase, it was before the market really  
15 dropped in 2002, they said, this is what we sold these  
16 folks in 1999; this is what we've sold them in 2000;  
17 this is what we sold them in 2001; this is what our  
18 volume decline was. We can't say if we lost 500 tons  
19 with the customer, that they bought 500 tons of  
20 Chinese. Maybe, their sales went down by 200 tons and  
21 they only bought 300 tons of Chinese. So, we can't  
22 nail it down exactly, but this is the best we can do.

23 For whatever reason, it didn't work out for  
24 the Commission staff. And this happens sometimes with  
25 Office of Economics, in certain cases, with the

1 Commission, in general. Sometimes, there's a --  
2 you've got to fit the boxes and this was an industry  
3 where the boxes didn't fit. I would say that just in  
4 the purchaser responses, and people tend not to match,  
5 purchaser responses loss sales. But, Mr. Clark's  
6 purchaser response says, hey, this is the amount of  
7 Chinese I bought instead of domestic. Now, that's not  
8 a specific loss sales allegation that's been verified;  
9 but, Mr. Clark shared his -- before his testimony  
10 today, shared his response with me and, clearly, his  
11 response demonstrates loss sales. And there's other  
12 purchaser responses that demonstrate loss sales.

13 So, maybe, we can put that together; maybe  
14 we can put it together again in our post-hearing brief  
15 with our two Exhibit 30s, and see if we can't work  
16 with the Commission staff, to try to get out to some  
17 of these customers and say, hey, there's a loss sales  
18 allegation; did you buy Chinese instead of domestic  
19 over the POI. I don't think you'll get from customers  
20 specific numbers. I don't think they'll say, well,  
21 yes, I bought exactly 371.37 tons of Chinese product  
22 instead of domestic. But, I think they'll say, yes, I  
23 bought Chinese.

24 The producers are giving the specific  
25 numbers. But, I think that customers can at least

1 answer a question, did you buy Chinese instead of  
2 domestic because of price during the time period 1999  
3 through 2002. That seems to me to be a relevant loss  
4 sales question for this type of case. And don't  
5 forget, they sell like 300 different variations of  
6 these little products up here, so they can't also nail  
7 it down -- it's not like hot-rolled sheet, with a  
8 gauge, this many tons of hot-rolled coil of 72-inch  
9 width or this or that. There are so many products.  
10 They put them all together.

11 COMMISSIONER MILLER: Okay. Well, I  
12 appreciate the offer to try to work with us still on  
13 as much specifics as we can get, because I do think  
14 it's important and valuable information, in an effort  
15 to make some connection between decline and domestic  
16 shipments and the effect of the Chinese imports.

17 MR. SCHAGRIN: I agree. We will do our  
18 best.

19 CHAIRMAN OKUN: Commissioner Koplan?

20 COMMISSIONER KOPLAN: Thank you, Madam  
21 Chairman. I just have one matter I'd like to clarify  
22 for myself. Coming back to the environmental  
23 expenditures that you all are facing, can you tell me,  
24 Mr. Gleason, Mr. Fish, first of all, I might have  
25 missed this, but when did EPA actually issue its new

1 particle standard?

2 MR. FISH: Are you talking the -- is that  
3 the MAT standards, the new one that was issued in  
4 December?

5 COMMISSIONER KOPLAN: Yes. Is that when it  
6 was issued, December?

7 MR. FISH: My understanding and I haven't  
8 fully read the whole thing, but I believe there was a  
9 new standard that was issued in December. And in my  
10 layman's summary, is that when you replace or install  
11 new equipment, you will install state-of-the-art. You  
12 will not --

13 COMMISSIONER KOPLAN: And the state-of-the-  
14 art is these new dry bag houses?

15 MR. FISH: That, I can't speak to, but I  
16 think Bob can.

17 MR. FISH: I think the MAT is the maximum  
18 available technology on air quality. That has not  
19 been passed yet. But, each individual plant has to  
20 submit all their potential costs to upgrade their  
21 equipment. The existing equipments are grandfathered  
22 in, but we had to submit what the total environmental  
23 cost is going to be to comply with the MAT standard,  
24 which the MAT standard, to my understanding, has not  
25 been fully approved or asked to be implemented, at

1 this point.

2 COMMISSIONER KOPLAN: So, is the 6.9  
3 million, for example, that you estimated, Mr. Gleason,  
4 is it possible because of the grandfathering that you  
5 might not have to expend that money?

6 MR. GLEASON: I'll let Mr. Barron answer  
7 that question.

8 MR. BARRON: I'd like to answer that. The  
9 answer is if you make a substantial change to your  
10 existing emission control system, you then have to  
11 comply with current laws.

12 COMMISSIONER KOPLAN: But if you don't?

13 MR. BARRON: We need to do that. If you  
14 make substantial repairs like changing fans or  
15 changing ducting to allow us to improve our melting  
16 facility, then you have to get current with the  
17 existing laws.

18 COMMISSIONER KOPLAN: Let me just see if I  
19 understand. I apologize for interrupting.

20 So then it's under your control as to when  
21 you do this because of the grandfather clause?

22 MR. BARRON: To some degree. The condition  
23 of the equipment dictates that also. You have to  
24 maintain the equipment to a certain level, and once  
25 that becomes difficult or impossible to do due to the

1 age and what is required cost-wise to maintain it,  
2 then it's better to change. As soon as you change,  
3 then you have to comply with the current laws.

4 As we see MACT coming, we know that if we're  
5 going to make a change that we need to be prepared to  
6 comply with the law when it becomes adopted.

7 COMMISSIONER KOPLAN: This is assuming it  
8 gets adopted?

9 MR. BARRON: Yes, but if it doesn't get  
10 adopted then much of our effort would be wasted  
11 because then we'll have to go back and retrofit  
12 reasonably new equipment to comply with the new laws  
13 as they potentially may be.

14 COMMISSIONER KOPLAN: So can you estimate  
15 for me when you think you'll have to be doing this?  
16 Is it going to be staged? Is the 6.9 going to come  
17 all at one time?

18 MR. BARRON: That's a three year program is  
19 what we're doing.

20 COMMISSIONER KOPLAN: A three year program.  
21 Do you have a start up date for the three year  
22 program?

23 MR. BARRON: Yes. We started already  
24 actually.

25 COMMISSIONER KOPLAN: Okay.

1           MR. BARRON: As Mr. Gleason said, we've  
2 begun foundations. We did some of those in January.  
3 We'll repeat more foundations in February, and by this  
4 summer shutdown we'll have a substantial amount of  
5 steel erected to carry the structure of the new  
6 emission control system.

7           COMMISSIONER KOPLAN: What about you, Mr.  
8 Fish, in terms of compliance, timing and all? What  
9 can you tell me?

10          MR. FISH: I probably can't tell you  
11 anything right now. I mean, from my standpoint, we  
12 comply with all the current EPA regulations.

13                 If we were to make changes, we would have to  
14 make additional environmental changes so that we meet  
15 the new standards, but, you know, we spent --

16          COMMISSIONER KOPLAN: You don't anticipate  
17 doing that, though?

18          MR. FISH: I don't anticipate anything more  
19 than custodial replacements, but there are some  
20 substantial custodial replacements that happen as  
21 things wear out. Again, I would ask Bob Kim to speak  
22 to those on Columbia.

23          COMMISSIONER KOPLAN: If you could give me  
24 any kinds of estimates, Mr. Kim, I'd appreciate it.

25          MR. KIM: The difference between Ward

1 Manufacturing and Anvil Manufacturing in our Columbia  
2 plant is we use a different method of melting iron.  
3 The method that Ward uses is a cupola melting, and  
4 ours is electrical melting.

5           When we installed our electrical furnaces,  
6 we installed all the environmental regulatory  
7 requirement equipment with it so we do not have, you  
8 know, a substantial project that we need to upgrade  
9 our electrical furnaces at this point. That's why we  
10 do not have something. Even in Pennsylvania they're  
11 upgrading their melting system. Our melting system  
12 does not require that.

13           COMMISSIONER KOPLAN: I see. So then the  
14 type of estimate that Mr. Gleason gave, you don't have  
15 anything that would approximate anything like that?

16           MR. KIM: We will not, but, as Mr. Fish said  
17 and as in my testimony, because our equipment is a lot  
18 more automated --

19           COMMISSIONER KOPLAN: Right.

20           MR. KIM: -- you know, the daily maintenance  
21 cost is higher.

22           COMMISSIONER KOPLAN: Okay. Thank you. I,  
23 too, want to thank the panel for its responses to our  
24 questions. It's been extremely helpful to me.

25           I have nothing further. Thank you, Madam

1 Chairman.

2 CHAIRMAN OKUN: Thank you. I had intended  
3 to ask that myself.

4 Commissioner Miller covered that for me, and  
5 Mr. Schagrin covered that, although again I will just  
6 reiterate what you said, which is I think it is  
7 important, particularly in a case like this where  
8 we're trying to establish where the competition is, to  
9 have whatever information could be made available  
10 available to us.

11 I want to thank the witnesses as well for  
12 all their responses.

13 Vice Chairman Hillman?

14 VICE CHAIRMAN HILLMAN: I have no further  
15 questions. Thank you very much. I appreciate your  
16 answers.

17 CHAIRMAN OKUN: Commissioner Miller?

18 COMMISSIONER MILLER: No further questions.  
19 Thank you.

20 CHAIRMAN OKUN: All right. I think  
21 Commissioner Koplan was finished, so I will turn to  
22 staff to see if staff has questions for this panel.

23 MR. PREECE: Amelia Preece with Economics.  
24 I'm very interested in getting some lost sales/lost  
25 revenue data. I think that will be very helpful.

1           To do that, perhaps what would be the  
2           easiest thing would be to focus on the four pricing  
3           products we used. They seemed to give us very good  
4           coverage as far as percentage-wise if I could look at  
5           those specifics to the extent that there's been lost  
6           sales.

7           I realize that you don't know what's  
8           happening from the purchasers' side, but if you can  
9           give the quantity that you think you may have lost of  
10          those products and the price then I can verify with  
11          the purchasers if that's a reasonable quantity or if  
12          the quantity has been changed for other reasons and  
13          verify what price from the Chinese I would get.

14          If you could focus on those products, it  
15          might simplify the collection of data and make it  
16          possible for us to sort of have the same song to sing.

17          MR. SCHAGRIN: Ms. Preece, we will try to do  
18          that. I'll go back to Anvil and Ward and see if the  
19          Exhibit 30 data that they provided in the petition and  
20          the amendment to the petition could be segregated  
21          using their computer systems for the pricing products.

22          I don't know how that will work out. I  
23          think that doesn't connote too well, once again, to  
24          the way that business is done. However, what we'll  
25          also do so that we don't slow the process is I've

1 asked them. I've given them respectfully their own  
2 confidential exhibits, which were in the petition and  
3 the exhibited petition.

4 I've asked them to supply me with updated  
5 information in terms of contact names because this was  
6 supplied 11 months ago at some companies. People  
7 change. Updated contact names at these purchasers,  
8 updated phone numbers, any updated information. We'll  
9 try to provide that to you as soon as possible. We  
10 won't wait until the post-hearing brief.

11 We will also see if they can go into their  
12 computer systems and break out data for the pricing  
13 products as well.

14 MR. PREECE: Thank you very much. I have no  
15 further questions.

16 MS. NOREEN: Bonnie Noreen with the Office  
17 of Investigations. I have a question.

18 It seems that you are more or less in  
19 agreement that there was a demand decline between 2001  
20 and 2002. Excuse me. Between 2000-2001 and then  
21 again in 2001-2002. I'm just wondering if you could  
22 give me some type of quantification of it.

23 Would it be a demand decline of one percent?  
24 Would it be a demand decline more in the range of 10  
25 percent or five percent? Fifteen? If you could give

1 me some idea?

2 MR. SCHAGRIN: Ms. Noreen, maybe it would be  
3 best if we discuss this with the client because trying  
4 to come up with numbers, you know, I think is going to  
5 take some thought and analysis.

6 They can give you estimates now, but maybe  
7 we could try to give you numbers from their  
8 perspectives in the post-hearing brief as an answer to  
9 a question.

10 MS. NOREEN: Okay. If they could give me  
11 some estimates now, that would be --

12 MR. SCHAGRIN: Unless someone wants to  
13 answer it now.

14 MS. NOREEN: That would be great.

15 MR. SCHAGRIN: We're going to have to go  
16 back and look at your numbers and look at maybe some  
17 of your industry publications and things. We'll  
18 answer it in the post-hearing brief if that's all  
19 right.

20 MS. NOREEN: Okay. The second thing is this  
21 notion of unit value we kind of struggle with. As I  
22 understand it, and it could be that I have things  
23 wrong, but, as I understand it, on the basis of  
24 tonnage the unit value for the ductile is more  
25 expensive than the non-malleable, but on the basis of

1 the individual fittings that may not be the case.

2 It may be that they are more comparable in  
3 pricing, or perhaps the ductile is even less  
4 expensive. Is that correct, or am I misreading  
5 something?

6 MR. GLEASON: I believe that your  
7 understanding is correct. The ductile iron may cost  
8 more, but in terms of the selling price it could be  
9 equal to or less than the non-malleable cast iron as  
10 what's happening in the marketplace.

11 MS. NOREEN: And that would be because the  
12 fittings on the ductile are actually thinner walls and  
13 so it's a lighter product? Is that correct?

14 MR. GLEASON: That's the only reason I could  
15 understand, yes.

16 The characteristic of the ductile fitting is  
17 more -- it is a thinner wall construction and,  
18 therefore, lighter. It would cost more to produce,  
19 but in a competitive sense they would sell for --  
20 because it's a direct substitute for cast iron, the  
21 Chinese would sell it for the same price, if not less  
22 price, than cast iron.

23 MS. NOREEN: Okay. Thank you very much.

24 Staff has no more questions.

25 CHAIRMAN OKUN: Thank you. We are done with

1 all the industry witnesses for this panel then.

2 Mr. Schagrín, I assume you'll just go  
3 directly to closing. You had 21 minutes left, but I  
4 can't imagine you're going to rebut yourself on China  
5 policy at large, so we will have you just go to your  
6 closing remarks.

7 MR. SCHAGRIN: I think if it's all right  
8 with you, Chairman Okun and members of the Commission,  
9 I think really in the opening statement and the  
10 answers to questions we've addressed things, you know.

11 In summary, this is a case largely of  
12 volume, volume impact on the industry having a  
13 tremendous impact on the employment within the  
14 industry, on the profitability of the industry and the  
15 profit margins on the industry and the effect of less  
16 volume on increases in cost of goods sold and the  
17 underselling having an overall effect on price  
18 suppression.

19 The threat case, which I don't think you'll  
20 get to. I don't know that the Commission has had to  
21 address really adverse inferences in this way before  
22 because if you had to get to threat you've got  
23 information on the record on some of the factors, but  
24 on that all important factor of what's the additional  
25 availability capacity in China at the present time to

1 ship to the United States, you don't have the  
2 participation of the Chinese industry. We have  
3 suggested some adverse information.

4 I think given that we have no one opposing  
5 the imposition of duties it doesn't mean we win.  
6 That's why we were here today, and that's why we  
7 brought in nine witnesses. It does mean I don't have  
8 to give a very long closing.

9 I suggest we all go straight to lunch.  
10 Thank you very much.

11 CHAIRMAN OKUN: Well, the Chair likes that  
12 suggestion.

13 COMMISSIONER KOPLAN: May I inquire how much  
14 time he has left on his five minutes, Madam Chair?

15 CHAIRMAN OKUN: Do you want to do a closing  
16 statement?

17 Post-hearing briefs, statements responsive  
18 to questions and requests of the Commission and  
19 corrections to the transcript must be filed by  
20 February 19, 2003. The closing of the record and  
21 final release of data to parties is March 5, 2003, and  
22 final comments are due March 7, 2003.

23 With no other business before the  
24 Commission, this hearing adjourned.

25 (Whereupon, at 12:10 p.m. the public hearing

1 in the above-entitled matter was concluded.)

**CERTIFICATION OF TRANSCRIPTION**

**TITLE:** Non-Malleable Cast Iron  
**INVESTIGATION NO.:** 731-TA-990 (Final)  
**HEARING DATE:** February 11, 2003  
**LOCATION:** Washington, D.C.  
**NATURE OF HEARING:** Public Hearing

I hereby certify that the foregoing/attached transcript is a true, correct and complete record of the above-referenced proceeding(s) of the U.S. International Trade Commission.

DATE: February 11, 2003

SIGNED: LaShonne Robinson  
Signature of the Contractor or the  
Authorized Contractor's Representative  
1220 L Street, N.W. - Suite 600  
Washington, D.C. 20005

I hereby certify that I am not the Court Reporter and that I have proofread the above-referenced transcript of the proceeding(s) of the U.S. International Trade Commission, against the aforementioned Court Reporter's notes and recordings, for accuracy in transcription in the spelling, hyphenation, punctuation and speaker-identification, and did not make any changes of a substantive nature. The foregoing/attached transcript is a true, correct and complete transcription of the proceeding(s).

SIGNED: Carlos Gamez  
Signature of Proofreader

I hereby certify that I reported the above-referenced proceeding(s) of the U.S. International Trade Commission and caused to be prepared from my tapes and notes of the proceedings a true, correct and complete verbatim recording of the proceeding(s).

SIGNED: Beth Roots  
Signature of Court Reporter